

Indian Citizen Series.

THE
CO-OPERATIVE MOVEMENT IN INDIA

BEING

**A Study of the Co-operative Principle and its
Diverse Applications in India and Abroad**

BY

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With a Foreword

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PREFACE TO THE THIRD EDITION.

During the interval of six years between the publication of the second edition and the present one, co-operation has made great strides in India and the rest of the world and co-operative literature has correspondingly increased in volume and variety. Consequently, I have had almost to rewrite the whole book and make it as complete and up-to-date a manual as possible. It is for the readers to judge how far I have succeeded in my task. My faith in Co-operation as the great lever of our national progress continues unabated and my hope for its progress and success in India is strong and abiding. Considerations for space have compelled me to omit the bye-laws for which requisition may be made to the Registrars of Co-operative Societies ; even without the bye-laws the present edition is more voluminous than the last one, and consequently, the price has had to be raised.

In the prefaces to the first two editions and in the footnotes to this one I have acknowledged my obligations to the various authorities from whom I have borrowed my materials : I repeat those acknowledgments here again. I have drawn much of my materials from the articles published in the *Bombay Co-operative Quarterly* and the *Bengal, Bihar & Orissa Co-operative Journal* and from the writings of such eminent co-operators as Messrs. Wolff, Strickland, Darling, Donovan, J. M. Mitra, Rothfeld, Ewbank, Collins, Calvert and the late Mr. Hemingway : to all of them I beg to acknowledge my indebtedness. To Mr. J. T. Donovan, formerly Registrar of Co-operative Societies, Bengal, who has ever inspired me with his high co-operative ideals and achievements, I am particularly indebted not only for the foreword which he has kindly written for this edition but also for much of the materials—specially in chapters X and XI of the book.

A perusal of the book will, I hope, convince the reader of the backwardness of India in the world's march of co-operative progress: my labors will be amply repaid if the study of my book helps even in the partial removal of the one-sided character of Indian co-operative development and in the ever widening application of the federative principle, so that, in years to come, India may take her rightful place in the scheme of International Co-operation.

I should be failing in my duty if I did not gratefully acknowledge the constant and invaluable help rendered to me in diverse ways by my revered father, Babu Lalmohan Mukherji, B.L., author of *Indian Case-Law on Ejectment*, in the preparation of this volume. I should also record my gratitude to Babu Shyamapada Banerji for seeing the book through the press.

PRESIDENCY COLLEGE : }
Calcutta : March 6, 1923. }

P. MUKHERJI.

PREFACE TO THE SECOND EDITION.

In this edition I have attempted within a brief compass to give a comprehensive survey of the phenomenal development of the co-operative movement in India. After describing the origin and development of co-operation in the West I have given brief accounts of some of the recent developments of co-operative enterprises in Europe, in the hope that they may be adapted to the needs of India and established here in suitable centres. I have then traced the progress of the co-operative movement in India from its earliest stages to the present day : in doing so, I have not only explained the nature and underlying principles of the different forms of Indian co-operative institutions, but have also incorporated the model by-laws (of 14 different kinds of societies) issued from, and kindly supplied to me by the offices of, Registrars of Co-operative Societies in different provinces. These by-laws would be useful not only to the practical co-operator, but also to the student of economics who will find therein practical applications of the abstract theories of co-operation. If the student desires to help forward the greatest and the most potent modern economic movement in India and to introduce his less favored fellowmen to the blessings of a full economic life, he should not only learn the theories and principles of co-operation, but he should know also how to form Co-operative Societies.

I cannot adequately express my indebtedness to Rai J. M. Mitra Bahadur, M.A., the indefatigable Registrar of Co-operative Societies, Bengal : I am indebted to him not only for the Introduction which he has very kindly written for my book, but also for the ready help which he has given me on numerous occasions in the course of the preparation of this

volume. Indeed it is not too much to say that but for his help it would not have been possible for me to give the book so thorough a revision.

I am also deeply thankful to Mr. R. B. Ewbank, I.C.S., Mr. C. W. Dunn, I.C.S., Mr. H. R. Crosthwaite and Khan Bahadur Mohi-uddin Ahmed, Registrars of Co-operative Societies of Bombay, Burma, Central Provinces & Berar, and Bihar & Orissa, respectively, who have very kindly supplied me with valuable co-operative literature issued from their Departments on which I have freely drawn in the preparation of this volume.

My grateful thanks are also due to Prof. J. C. Coyajee B.A., (Cantab.), L.L.B., for permitting me to reprint from the *Bengal Co-operative Journal* his admirable article on "Non-co-operative Agricultural Banks vs. Co-operative Credit Institutions," which is a noble vindication of the Indian Credit Co-operative Movement against the attacks of some well-known critics.

Sir Frederick Nicholson's and Mr. Cahill's comprehensive Reports, the writings of Messrs. Wolff, Fay, Morman and Herrick, the files of the International Review of Agricultural Economics (Rome), of the Agricultural Journal of India and of the Bengal Co-operative Journal—and lastly, that *magnun opus* on Indian Co-operation—the Report of the Imperial Committee on Co-operation presided over by the Hon'ble Sir Edward Maclagan, K.C.I.E,—have all been freely drawn upon by me in preparing this volume.

An entirely novel feature of this edition is the inclusion in it of the Co-operative Societies Act (II of 1912) which has been fully annotated by me in close consultation with my revered father, Babu Lalmohan Mukherji, B.L., the author of "*Indian Case-law on Ejectment*."—These annotations, which I am glad to be able to acknowledge, have been very care-

fully revised by Rai J. M. Mitra Bahadur, will, I hope, be found useful by all practical co-operators. The Appendices contain recent Indian statistics, the Government of India Resolution on the Growth of Co-operation in India (1914) and the Abstract Report of the Imperial Committee on Co-operation.

By prescribing this book as a text for the B.A. examination in Economics, the authorities of the Calcutta University have greatly encouraged me and their appreciation has been an incentive to further efforts and further improvement. I shall deem my labour to be amply repaid if this book is equally appreciated by the wider public of Indian co-operators and students of economics generally.

I should like to take this opportunity of thanking Babus Syamapada Banerji and Nirapada Banerji for the great assistance they rendered to me in passing the book through the press.

There was some difficulty in getting the paper which was being used for printing the book. To avoid delay some forms of the book have been printed on a different kind of paper.

PRESIDENCY COLLEGE : }
Calcutta : Jan. 22, 1917. }

P. MUKHERJI.

PREFACE TO THE FIRST EDITION.

This little book grew out of a lecture delivered by me at a meeting held at the Calcutta University Institute on the 17th of August, 1910, under the presidency of Mr. Manohar Lal, M.A., (Cantab.) the then Minto Professor of Economics. In it I have made an humble attempt to acquaint the students of our University and the educated public of this country with the principles, progress and effects of the co-operative credit movement which was first introduced in this country just a decade ago. On the 25th of March, 1904—a red letter day in the annals of Indian legislation—the Co-operative Credit Societies Bill was passed into law “to encourage thrift, self-help and co-operation among agriculturists, artisans and persons of limited means.” It is one of the greatest and most beneficent measures that have been taken by the Government of India for the betterment of the masses of our countrymen—and the area of its beneficent influence has been considerably widened by the recently passed Co-operative Societies Act of 1912.

The seeds of economic co-operation sown ten years ago on the Indian soil have put forth a bright young plant full of health and vitality: it is for our educated countrymen—no less than for the unemployed young men of our villages—to nourish it and to reap the fruits of co-operation in its various phases of credit, production, distribution etc. It is my earnest wish that they should root out the weeds of suspicion—where there are any—and pour all their energies at its root, only that in time this young plant may develop into a full-grown tree rooted firm and deep in the soil giving the shelter of its protection to the teeming millions of our poor debt-ridden villagers.

To help the organisers of co-operative societies of various kinds I have given in three appendices some of the model by-laws issued from, and kindly supplied to me by, the office of the Registrar of Co-operative Societies in Bengal. When this book was about to come out from the press, the Government of India issued on the 17th of June last a Resolution on the Growth of Co-operation in India which I considered to be so highly important that I could not help publishing it *in extenso* for the benefit of my educated countrymen.

Before I conclude, I desire to acknowledge gratefully the constant help and invaluable advice which have been ungrudgingly given me by Professor Satis Chandra Roy whose silent work at the University and whole-hearted zeal in the cause of the true "advancement of learning" have been an unfailing source of inspiration to me.

DURBIANGA LIBRARY ; }
Calcutta, July 1st, 1914. }

P. MUKHERJI.

THE Co-operative Movement in India.

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A FOREWORD TO THE THIRD EDITION.

BY

MR. J. T. DONOVAN, I.C.S.

The greatest, albeit the quietest, movement in India today and the movement with the greatest future before it, is the co-operative movement. In less than two decades fifty thousand societies have come into existence and the adherents of the movement must be approaching two millions, practically every one of whom represents a family. Viewed in this light the co-operative development of India is justly a source of pride for those who have taken part in it. The development, it is true, is unavoidably very largely due to official guidance, but no official help could have achieved so much without assistance from the community at large. As one of the officials responsible for co-operative development in Bengal, I am glad of another opportunity of testifying to the assistance received from the people, specially when I can use the opportunity to reiterate my acknowledgments to Professor Mukherji, the author of this book.

It is nearly ten years since I first met Professor Mukherji in connection with the co-operative movement and since then I have known him as an assiduous student of co-operation not in Bengal alone but in India as a whole and in the other countries of the world. The reader of this book will realise how far afield Prof. Mukherji has gone in his search for applications of the co-operative principle adaptable to Indian circumstances. The existence of the Bengal Co-operative Organization Society is due to Professor Mukherji without whose perseverance it would have died an early death owing to the apathy of the particular classes who might have

made of it the complete success which it ought to be. To Prof. Mukherji, too, the *Bengal Bihar and Orissa Co-operative Journal* is greatly indebted for years of patient labour, unrequited except by the knowledge that the light was being spread.

Although the co-operative movement is the greatest in India it is yet in its initial stages. It has progressed far in the realm of agricultural co-operative credit and to a very considerable extent in co-operative credit among people who do not till the soil. The numerous activities of the great industry of Agriculture, however, are fields almost still unbroken by the plough-share of the co-operator. The sowing, manuring, irrigation, harvest and marketing of the great crops of India still await the coming of co-operation. The wide-spread hand-loom industry requires the application of the co-operative principle to arrest its decay. The housing of the poor and middle classes in the cities calls loudly for the co-operator's aid. The solution of the milk problem in those same cities will in present circumstances be found only in co-operation. The cottage industries throughout the land cannot be saved without co-operation. The co-operative store movement still awaits development in every province. In all these and many more activities beginnings have been made, but these beginnings are very, very small. Professor Mukherji has indicated the progress that has been made and suggested the possibilities that remain. Let me hope that when at no distant date he comes to publish the next edition of this book he will be able to chronicle a great advance. The study of the book by students of Economics and by those interested in the co-operative movement will help to bring about this progress.

The Co-operative Movement in India.

INTRODUCTION.

THE CO-OPERATIVE PRINCIPLE AND ITS DIVERSE APPLICATIONS.

"There is in the medley of man's composition an instinct for co-operation and obedience".—H. G. Wells.

Co-operation is the ruling principle operative in every sphere of human life—social, political, industrial and educational. It is the concrete expression of the associative spirit which is ever present in humanity. The harmony and order of family life are impossible without mutual co-operation and helpfulness; there can be no orderly progress within the state without co-operation between the rulers and the ruled, and between the various organs of government; separation of functions may be necessary, but still more necessary is co-operation among functionaries; in the industrial field also co-operation between Capital and Labour, between the employers and the employed, is the vital condition of industrial peace and economic progress; intellectual and educational developments will be impossible without close co-operation among the teacher and the taught. Indeed it is not too much to say that man *i.e.* the ordinary man is a "co-operative animal"; the "social" and "political" nature of man presupposes a co-operative bias; human society can only break up into the anarchic "state of nature" without the cementing bond of co-operation.

Two rival tendencies have always been at work—the Individualistic and the Socialistic; the one magnifying the individual Ego and goading him on to selfish cut-throat competition and thus leading to glaring inequalities and palpable injustices; the other killing individual initiative and effort and merging the individual in the state and reducing all to a dead level of equal mediocrity. Truly has Romain Rolland said in his fascinating work "*John Christopher*"—"Co-operation is the two-edged axe which strikes at the same time at the dead abstractions of the socialistic state and at the sterility of individualism—that corrosion of energy, that dispersion of collective force in individual frailties". Co-operation alone is called upon to effect an agreement between individual liberty and state socialism and to combine individual initiative with the common weal. Æsop's famous fable of the Bundle of Sticks clearly brings out the underlying principle of co-operation *viz.* union is strength: this applies equally to the social, political and economic life of man. The economic application of this truth is to be found in co-operation which is nothing but the union of all for the benefit of each: "each for all, and all for each" is the guiding motto of all co-operative activity.

According to Mr. Herrick, author of the well-known work on "*Rural Credits*" co-operation is the act of persons, voluntarily united, of utilizing reciprocally their own forces, resources, or both, under their mutual management, to their common profit or loss. The learned authors of that famous book on "*Rural Reconstruction in Ireland*" think that a co-operative society may be defined as a voluntary association of individuals, combined to achieve an improvement in their social and economic conditions through the common ownership and democratic management of the instruments of wealth. To us co-operation appears to be the economic counterpart and complement to Democracy in the field of politics;

mutuality, equality and fraternity are the governing principles both of co-operative societies and of democratic political institutions. Co-operation, in the narrower technical economic sense, may thus be said to mean voluntary democratic association of economically isolated and hence weak individuals to secure, by moral development and mutual help, economic or material advantages available otherwise only to powerful individual capitalists and traders. Co-operation, in this sense, therefore, implies a co-operative society in which the associated members join together, purely as human beings, on a basis of equality, for the promotion of their common economic interests and for lifting themselves up from weakness into strength. It is a powerful lever for individual and national uplift, and, as such, has worked wonders in all parts of the world where it has been practically applied to the solution of diverse economic problems. It does not level down the highest to the lowest but levels up the lowest to the highest, and it is of such virtue that, as the ordered process of uplifting continues, the pace at which it is possible to approach equality becomes accelerated.

Before proceeding further in our enquiry, it is necessary for us to consider a question which naturally suggests itself to reflective minds—what is it which distinguishes the theory of co-operative association from that of other associations for the purpose of carrying on business undertakings? In answering this question let us take the case of a co-operative production society—say, an oil-pressing society: suppose a number of skilled oil-pressers come together with their savings and determine to form themselves into an association for the carrying on of their trade, each man, in so far as the ultimate government of the society is concerned, being on an equality with every other man; suppose, further, that the profits of the business—the difference in this case between the cost of production and the wholesale selling price—are divided

amongst the members, not in proportion to each man's capital holding, but in proportion to his output (or by reference to some similar standard), then this business undertaking would be termed co-operative.

If we contrast such an association with that form of association which is commonly termed a joint stock company, we shall understand the meaning of one of the formulæ often used in contrasting the co-operative with other business forms of associations *viz.* that co-operative undertakings are unions of *persons*, whilst joint-stock and similar enterprises are unions of *capital*. In the co-operative society which we are studying the members are at once share-holders and workers. They employ capital and pay a fixed rate of interest on it. In the joint stock enterprise the share-holders are not the workers; they provide the capital, and with it employ the work-people at fixed rates. In the co-operative society of producers the profits, after capital has been paid its fixed rate of interest, go to reward the worker-members; in the joint-stock enterprise, after the workers have been paid their wages, the profits go to reward the holders of capital. Thus in the co-operative system of association the workers employ capital and undertake the risks of business, while in the capitalist system the capitalist employs the workers and undertakes the risks. Further, in the capitalist, or joint-stock system of association the profits go to reward the undertakers in proportion to the amount of capital held by them and the power of influencing the government of the association is in direct proportion to the amount of share capital, owned by each of them; but in the co-operative society, in which capital is regarded merely as an instrument of production, the power of influencing the government of the society is equalised among all the members, each having one vote and no more, however much or little he may share in bearing the risks.

Briefly speaking, therefore, there are two main differences

between the two forms of association, one touches aims and the other control. In the joint-stock company control vests in the share-holder in proportion to his shares. A man with ten shares has ten times as much voting power as a man with one ; Capital therefore dominates. In the co-operative society the rule of one man, one vote, is axiomatic : rich and poor are therefore equal. Secondly a company's sole object is profit, and all profit is distributed in ratio to shares. On the other hand, the object of a co-operative society is not profit but a special service which it seeks to render to its members on the best possible terms. And so the motto of every joint-stock company is ~~profit~~, more profit, and still more profit ; or in blunter language, every company for itself and devil take the hindmost ; whereas the motto of every true co-operative society is "each for all and all for each". The difference is fundamental and explains why co-operation is spreading so fast and so wide.

Whatever type of co-operative society we examine, we shall find that there is always an attempt to realise the idea of brotherhood and common fellowship, and to eliminate the idea of the competitive system. It is this spiritual element which distinguishes co-operative from non-co-operative enterprise. Co-operation is based upon the spiritual elements of Love and Sacrifice : it harmonizes discordant material interests and elevates them from the material to the spiritual plane. As soon as it is removed from the spiritual plane and confined to the material the harmonized interests again clash and discord and disruption ensue. It is the spiritual element of co-operation which raises it above party, creed, colour or caste and which ensures it an eternity of life and vitality. "A. E." or George Russel—the well-known Irish co-operator beautifully brings out this aspect of co-operation in the following words* :—

* Preface to "Rural Reconstruction in Ireland"—by Smith Gordon & Staples.

"Nothing could be more hopeful for the triumph over the mind of men of spiritual ideas than a movement which aims at superseding individualism in the economic sphere by co-operation. The co-operative movement in large measure binds together the economic interests of Irishmen, so that purchase, manufacture and sale become less and less personal enterprises and more and more communal or national activities. It illustrates in a practical way the truth that the personal and economic interests of the majority are served best by their incorporation in communal enterprises. So the mind of the citizen is predisposed to subordinate his own interests and to identify them with the interests of the nation. I believe that whatever may be the temporary strength of other movements in Ireland the co-operative movement, dealing as it does with the daily lives of men, must finally have an influence greater than any other in its effect upon the character of the Irish nation. It occupies itself with things men must do under whatever Government they exist, whatever religion they profess, whatever cultural interests they may have; and because it deals with the permanent human occupations, the principles accepted in its organization must affect national character in the long run most powerfully." The concluding words of "A.E."—written at the most disturbed period of Irish political history—have a significance of its own here and now—"Ireland to-day" wrote "A.E." in 1917, "is in a very disturbed condition when many people despair of its future under any form of government which may be established, and it may cheer those who are despairing and increase the hopes of those who have faith to have their attention called to a movement so practical, so conciliatory in its effects and which is growing so rapidly that no country in Ireland is without its thousands of adherents. Before another generation has arisen I believe this movement will have made a complete conquest of the Irish mind."

Membership of co-operative societies is a practical education in economics fitting men for public service and by its principles it fosters the spirit of citizenship. When the fierce passions of the hour have foamed themselves away, I am convinced that this movement will come to its own and its principles of toleration and comradeship in work will become the dominant factors in national life".

The stability and all-pervading influence of the co-operative movement are nowhere more in evidence than in Russia—that hapless land where Tsarism and Bolshevism have, one after the other, dealt out hammer-blows on a simple and hardworking population of peaceful peasants and made their life an intolerable burden to them. The co-operative movement in Russia has shown a wonderful vitality and stability defying administrative interference and oppression during the Tsarist regime and the destructive influences of Bolshevik revolution. It has become a power in Russia to be reckoned with; during the war the Russian Co-operative Movement was recognized as one of the main economic factors in the life of the country. Co-operative societies are to be found among the various peoples inhabiting Russia—among the Armenians, Georgians, Tartars, Kirghese etc Shanyavsky's University at Moscow has played an enormous part in the propaganda of co-operative ideas: the excellent courses of lectures on co-operation delivered by first class men of science have attracted great numbers of co-operators even from the remotest parts of Russia. The All-Russian Co-operative Congresses are considered as the centre which organizes and directs the whole of the Co-operative Movement. The result of ceaseless educational and propagandist activity has been that co-operative unions of all kinds are growing with fabulous rapidity all over Russia: the best known of these unions is the Moscow Union of Wholesale Societies which has direct trade relations with the English and Scotch Wholesale

Societies. The activities of Russian co-operative societies spread over the whole world : they sell their wheat to England, Scotland, Holland and other countries ; butter to England and Denmark ; flax to Ireland, Scotland, Japan and America. Russia, more than any other country, has practically demonstrated the possibility of International Co-operative Exchange which was dismissed as a utopian dream incapable of actual realization, but is now an accomplished fact. On the 16th of January, 1920 the Supreme Council at Paris arrived at the following "most momentous decisions" authorising the resumption of trading relations with Russia—

"With a view to remedying the unhappy situation of the population in the interior of Russia, which is now deprived of all manufactured products from outside Russia, the Supreme Council, after having taken note of the report of a committee appointed to consider the re-opening of certain trading relations with the Russian people, has decided that it would permit the exchange of goods on the basis of reciprocity between the Russian people and the Allied and neutral countries. For this purpose it has decided to give facilities to the Russian co-operative organization which are in direct touch with the peasantry throughout Russia, so that they may arrange for the import into Russia of clothing, medicines, agricultural machinery, and the other necessities of which the Russian people are in sore need in exchange for grain, flax, etc., of which Russia has surplus supplies."

The survival of the Russian co-operative movement through the Tsarist and Bolshevik regimes points to its non-political, non-party and neutral character ; and the recognition of the Russian co-operative organizations as suitable media for the resumption of international commerce in the face of the non-recognition of the Soviet Government puts the official seal to the recognition of the high importance of

the movement,—an importance which transcends the limits of a national state and becomes international.

Co-operation is, in fact, a living creative force : it is constructive. It does not exist by destroying, and the more it creates the greater is its power for creation ; and there is scarcely any form of economic activity to which it cannot be applied. From the sale of a bag of flour to a few labourers, it passes to a shop, from a shop to a ware-house, from a ware-house to factories, from factories to great estates producing the raw material that is required, and from that to the line of ships that transport the raw materials to the factories. That is the progress of the big wholesale societies. Side by side with that progress go the education of co-operators, the creation of libraries, and even the creation of theatres, hospitals and restaurants ; and then comes or will come the entry into Government and the final approach to the Co-operative State and the Union of Co-operative States that will be the League of Nations of the future. It is in recognition of this remarkable creative power of co-operation that the French Government granted ten million francs for the reconstruction of co-operative societies in the invaded districts and another two million francs to French co-operative societies in general. "There has, indeed, never been," says Mr. Henry Wolff, the *doyen* of English co-operators, in his newly published work on "*Rural Reconstruction*," "a Midas-like touch like that of this beneficent power, nor so fruitful a generator of popular education, stimulating, with the growth of worldly possessions, the thirst for knowledge and the longing for higher treasures and knitting people together by a community of feeling into one enlarged family."

A survey of the origin and development of the co-operative movement in the different countries of the world brings out the truth that initially each country has applied the principle of co-operation to the solution of some special local

economic problem of her own and that the successful development along one path has led on to developments in other allied and inter-related directions. In England the Owenites and the Rochdale Pioneers were anxious to improve the conditions of the working classes by conceiving the plan of selling goods at current prices and dividing the savings amongst the purchasers in proportion to the amount of their purchases ; since their time the consumers' stores movement has made wonderful progress but, along with it, has also come co-operation in production, in housing and in other directions allied to the primary objective *viz.* the improvement of the moral and material conditions of the working classes. In Ireland, Denmark, Holland and Switzerland the principle of co-operation has been mainly applied to "better farming", the improvement of cattle, and the better organization of the sale of agricultural products including milk and dairy products. In Germany—the home of Raiffeisen and Schulze-Delitzsch—the originators of credit co-operation—the principle of co-operation was applied first to solve the problem of rural agricultural finance : it has since been applied by the German people in different directions to solve different problems. In Italy we find the most characteristic manifestation in the societies of workmen combined for common labour and in the similar associations for common cultivation of the soil : the natural talent of the Italian people for banking has also led to considerable success in People's Banks, a type more useful in financial results than in the growth of a true co-operative spirit. In France the temperate, intelligent and self-disciplined mind of the nation has found its truest expression in Industrial Production Societies and those producers' co-operative societies which go so far to reconcile the social problems of an industrial country.

From what has been said above it will be evident that the principle of co-operation may be applied in diverse ways to

achieve different objects. By co-operative credit, people get cheap money, reasonable terms and considerate treatment ; by co-operative purchase, people are able, by the elimination of the middlemen, to buy their requirements, domestic, agricultural and industrial, at reasonable prices and of good quality ; by co-operative sale, people can get better prices for their produce, again by the elimination of the middlemen ; by the co-operative ownership of expensive appliances and machinery, people who would be unable to buy them are able to obtain the use of such articles for moderate fees ; by co-operative factories people are able to prepare their own produce for market without the intervention of the manufacturer, and to manufacture their own domestic, and other requirements. This is but a bare enumeration of the leading types of co-operative activity ; there have been, and there will be, in the future, further newer applications of the co-operative principle to the solution of diverse problems. In India, unlike in most other countries except in Germany,—co-operative credit stood foremost as the commanding need of the majority of the people and the State took the initiative in giving the start to a movement which was aimed primarily at freeing the poor ryot from the thralldom of ages—from the crippling grip of the *Mahajan* or *Sowcar*. It will be our purpose to trace the growth, and to describe the many desirable ramifications, of this most beneficent movement initiated over seventeen years ago, and to draw our lessons from every country where the principle of co-operation has been applied, and to see how far the healthy shoots of the co-operative tree of other lands can be grafted on the Indian soil so as to afford the shelter of its luxuriant foliage to the unorganized poverty-stricken ryots of this vast continent of villages.

CHAPTER I.

CO-OPERATIVE CREDIT : RAIFFEISEN, SCHULZE-DELITZSCH AND OTHER SYSTEMS.

Co-operative credit, as an organized system, had its origin in Germany about the middle of the last century. Its beginnings were of the humblest description. Two men—Raiffeisen and Schulze—started independently about the same time to work out a system of credit on co-operative lines, the former, in the main, for poor peasants, the latter for artisans and small tradesmen. Let us now proceed to make a short study of the two systems.

The Raiffeisen banks in Germany.—Raiffeisen (1818-1888), with whose name rural co-operative banks have become associated, began his co-operative career in the winter of 1847-8 with the foundation of a benevolent society in a small village for obtaining corn and potatoes and selling them at low prices to the poorer inhabitants. This society was one of many of the same type founded in Germany about this time, when very serious distress prevailed. Two years later, he founded, in another village, a society which, at first, bought cattle and sold them to poorer landlords, but which later lent money on surety directly to the latter for this purpose. Upon his transference as burgomaster to Heddesdorf, near Neuwied on the Rhine, he founded a third benevolent society with various objects, but specially for the procuring of cattle for, and the granting of credit to, poorer farmers. This society, which gradually became merely a loan society, was composed of well-to-do inhabitants living in or near the village of Heddesdorf, who lent to less fortunate inhabitants of the area, obtaining capital on the security of their

collective unlimited liability. The assisted persons had nothing to do with the society, whose members acted as guaranteeing intermediaries between the capitalist and themselves. The first association founded by Raiffeisen in which the fundamental co-operative idea of the collective liability of the borrowers themselves appears was that of Ahausen (1862). There were already in existence co-operative societies with unlimited collective liability which had been created by Schulze of Delitzsch, a small town in the Province of Saxony, for the purpose of procuring credit for their members, who were mainly artisans, small employers of labour, and petty shopkeepers. But Raiffeisen had in view the needs of agriculturists with whom we are more intimately concerned.

The essential features of the Raiffeisen rural bank.—Before describing the essential features of the Raiffeisen system we should have a full grasp of the meaning of *personal credit* which lies at the basis of the Raiffeisen system. To understand the full connotation of the phrase, let us first of all understand what we mean by "credit." "Credit" may be briefly defined as a man's power of borrowing. Credit in the form of a loan always requires some form of security, expressed or implied, given by the borrower to the lender, that the money borrowed will be duly re-paid. This security may take various forms, and credit is generally classified according to the form which the security takes. It is *real or mortgage* credit if the security is land, houses or other immoveable property; it is *chattel* credit when the security consists of jewels, furniture or other moveable property; it is *personal* credit when the security does not take the form of any tangible property, moveable or immoveable, but is based on the status, position, means or character of the person seeking credit.

Character, to form the basis of credit must consist in honesty, diligence and frugality—the most important ele-

ments affording ample means for its being capitalised. But how can this be so capitalised ? For we know as a matter of fact that persons having a pledgeable character are seldom in a position to negotiate it in the open market. The reason is that character can have a value only to the person knowing its worth. What value can the character of a person living in a far-off village have to a banker in a town ? Even men of ordinary status, though living in the same town, could scarcely be expected to be known to an average banker. Even if he knew, would he consider it worth while to enter into petty transactions with them ? The character of such small folks, therefore, easily lends itself to be exploited by neighbouring money-lenders, to the great disadvantage of the borrower and not always to the advantage of the lender. It is to enable this class of small borrowers that Raiffeisen devised his system of co-operative credit—basing it entirely on the combined personal credit of the borrowers. We now proceed to deal with the essential features of the Raiffeisen system.

These features are—

I. *Organization on the strictly co-operative principle*—none but members having the right to borrow, although non-members may make deposits.

II. *Limitation of the operation of the society to a very small area.* The area of operation of a rural credit society is strictly limited. As a rule, one large village or two or three small villages lying close together are fixed as the area within which all members must reside. Raiffeisen considered that areas with a minimum population of 400 and a maximum population of 2000 should be chosen.

This limitation of area constitutes one of the essential principles of co-operative rural credit societies. By this means a certain security is guaranteed. The members are intimately acquainted with one another ; they know the means

and capacity of each other ; they know that such a one is industrious and farms well, that another is intemperate or a bad farmer whose circumstances are gradually becoming worse. When loans are proposed, the management can thus gauge correctly not only the capacity for credit of the intending borrowers, but also how far they are deserving of them. Capable and hardworking members with little capital may be in this way helped without risk. Loans are most usually made on bonds backed by sureties. The latter being naturally for the most part relatives or friends of the borrower living in the same village, the society can readily judge their financial soundness. The supervision of the use, to which the loan is put, is also facilitated, while the general management of the society can be observed by the members. These are some of the advantages of limiting the area of operation of rural societies. Besides loans for long periods, arrangements for easy repayments and other conveniences of essential importance to farmers that the rural society provides, cannot be provided by banks covering wide areas. The meetings of the committee of management and of the board of supervision are likely to be less well attended when distances have to be traversed to reach the meeting place. Representation on these bodies is also facilitated : complaints may well arise, when the area is large, that certain villages are not fairly represented on the committee or on the board of supervision. Another important advantage of a restricted area is that savings-deposits, which constitute the bulk of the working capital of these societies, are more conveniently lodged by the members.

III. *Unlimited liability of the members for all the debts of the society.*

The financial liability of credit societies is the collective liability of their members ; and it is open to them, as to all co-operative societies, to choose one of three forms : *unlimited*,

unlimited contributory, or limited liability. Unlimited liability has been adopted by over 92 per cent of rural credit societies in Germany. In a society with *unlimited liability*, the members, over and above the liability to pay in full the nominal value of the obligatory single share—for only one share may be taken by each member—undertake liability for the engagements of the society to its creditors directly, *to the extent of the whole of their property*; and this liability is individual and collective. In the event of bankruptcy any deficit is recoverable by a *per capita* levy upon the members. Proceedings by creditors against individual members for the enforcement of claims against the society are, under the German Co-operative Societies Act, only permissible when, after the lapse of three months from the date on which the contributory levy upon members is declared executable, such claims have not been satisfied. In the ordinary course this period would suffice for the society to make arrangements with its creditors. But should judgment be obtained by a creditor of the society against any member, the latter retains his right to sue the society for restitution of the amount he has been compelled to pay. He becomes a creditor of the society, and if ultimately his claims are not duly met by the society, he may proceed against any other solvent member or members.

Another form of unlimited liability, which was introduced by the German Act of 1889 is entitled *Unlimited Contributory Liability*. The position of societies adopting this form differs in no way from those possessing ordinary unlimited liability except in case of bankruptcy. In that event the property of individual members of a society with ordinary unlimited liability, as has been shown above, may, after three months, be individually claimed by unsatisfied creditors, whereas, when unlimited contributory liability has been adopted, *per capita* contributions may be levied, but no

direct proceedings against single members may be taken by creditors. The Maclegan Committee hints at the eventual adoption of this form of liability by rural credit society in India in the following passage—"Should it hereafter be found necessary to define it (*i. e.* unlimited liability) more clearly, we should suggest that it should take the form of contributory unlimited liability *i.e.*, that where there is a deficit in the engagement of a society to its creditors, this deficit should after the full payment of shares (if any) be recoverable by a series of *per capita* levies upon members up to the full extent of their property, direct proceedings by a creditor against individual members being forbidden."

In a society with *limited liability* a member undertakes, over and above liability for the payment in full of the nominal value of the share or shares held by him, *a liability for the payment of a fixed sum on each share held.* The amount of this fixed sum, constituting the liability attaching to each share, as well as the maximum number of shares that may be held by a single member, must be determined by the general meeting of members upon the establishment of the society, and must be stated in the registered articles of association.

Raiffeisen and Schulze-Delitzsch were both convinced advocates of unlimited liability. From the beginning up to the present time almost all the credit societies affiliated to the Federation founded by Raiffeisen have been constituted upon this basis. The Schulze Delitzsch Federation has not entirely abandoned the same principle. Its present leaders hold that the question of the superiority of unlimited over limited liability may not be determined absolutely; that it depends upon conditions prevailing in particular places, but that in the first instance, until a society has reached a certain degree of development, unlimited liability is in general to be preferred.

It may be asked in this connection—Do not the members of a rural credit society run a risk of incurring great loss by

reason of their unlimited liability? While for members of large urban societies unlimited liability may present certain dangers, there is, in fact, little risk of members incurring great loss by reason of unlimited liability in a rural credit society. The reasons are not far to seek. The area of a rural credit society is limited to at most a few villages; the members are acquainted with the general character and circumstances of their fellow-members; the collective knowledge possessed by the committee of management and the board of supervision and their collective surveillance are not likely to prove at fault. There is no incentive to undertake speculative or risky business—speculative business is, in fact, expressly forbidden by the rules of the majority of societies—with a view to large profits, dividends being either not paid at all or being, at the most, quite small, and working expenses inconsiderable. The committee and the board are, in the first instance, legally responsible to the society to the full extent of their property when losses occur as the result of their not exercising the “prudence of ordinary business men” in the affairs of the society; and, finally, there is the further safeguard of the audit which must be carried out at least once within every two years.

Indeed it is not too much to say that it is this principle of unlimited liability which has given birth to all the moral and educative effects of co-operative credit. Since the liability is unlimited, it is the interest of the committee to admit, as members, men whose character is beyond reproach: instances are not wanting to show how habitual drunkards have become sober gentlemen, spendthrifts have become thrifty and gamblers have given up their habits—only to be eligible for membership in the rural society. Again, it is because of this principle of unlimited liability that the committee insists upon its members the curtailment of unnecessary social extravagances and the employment of all loans in productive

works. The security, in such cases, lies chiefly, as is pointed out by the MacLagan Committee, in "the use of loans for genuine productive purposes, the honesty and thrift of the members, the watchfulness which they exercise over each other, the moral influence which they bring to bear upon dishonest or unthrifty co-members and the feeling of solidarity which is usually awakened by association for a common purpose"

IV. The working capital of the bank is obtained chiefly from the following sources :—

- (a) Small savings "drawn, either from within the area covered by the bank, in which case it comes both from members and non-members, the former being rewarded where possible at slightly higher rates in order to encourage membership ; or from without the area, in which case, it, of necessity, comes from non-members."
- (b) Loans from central or provincial banks, or from other banks, or from private individuals.
- (c) A purely nominal share capital which the banks did not originally have and which they have been forced against their will to issue. The requirement is now usually met by the issue of a few low-priced shares of which no member can hold more than one and upon which no dividend is paid.
- (d) Two surplus funds called reserve funds ; one used exclusively to cover losses and the other being the principal reserve fund, commonly used for "positive improvements such as the extension of the premises or the establishment of a burial fund." In this fund must be placed two-thirds of the annual profits. The fund cannot be distributed among the members, even though the

banks be dissolved. In such a case it is held in trust for a time for a new bank, should one be established, and if no such bank is established it must be used for some work of public utility. This is a very salutary provision : it lends to the stability of the bank.

V. A fifth feature of the Raiffeisen system is that the bank's administrative organization is simple and democratic. Final authority in local questions rests in the general meeting in which every member has one vote. There is elected annually a committee of management consisting usually of five or six directors who meet weekly. As a check upon this executive committee there is also elected annually a council of supervision consisting of from six to nine members. A biennial audit is made of the accounts of each bank by an accountant employed by the district or central union. The books of the bank, except the individual deposit ledger, are open to the inspection of all members. Officers of the local banks serve without compensation, except the treasurer who has no vote in the making of loans. The typical Raiffeisen bank is described by Fay as "a single room probably at the back of a farm building, opened twice a week and presided over by a single occupant," the treasurer.

VI. Advances take two forms : the ordinary loan (of which the name is sufficiently descriptive), and the current account which latter constitutes about a third of the total and shows a tendency to increase in proportion to the ordinary loans. The period of the ordinary loan varies from six months to three years ; and in exceptional cases it may be even longer. Loans are repayable in instalments covering interest and part of the principal, or in lump sums. Banks reserve the right to call back a loan on four weeks' notice.

The Raiffeisen banks in Germany are organised into provincial banks at their head, and these in turn into a

national federation with a central bank at its head. These provincial banks and the central bank "equalise the need of credit of the individual banks, supplying them with money when required and employing their surplus funds." A large proportion of the German co-operative banks and other co-operative agricultural societies are federated in a single national organization—the National Federation of Darmstadt. Such, in brief, are the leading features of the Raiffeisen system of co-operation—the greatest agricultural credit system of the world.

Briefly speaking, the majority of the Raiffeisen banks in Germany may be said to present the following features :—

- (1) The unlimited liability of all members for all indebtedness of their particular society.
- (2) Limitation of area so as to secure mutual personal knowledge of the standing of the members.
- (3) Loans only for productive or provident purposes.
- (4) Loans only to members.
- (5) Low shares.
- (6) Credit for relatively long periods with facilities for repayment by instalments.
- (7) The determination every year by the members of each society of the maximum credit that may be held by individual members at any time as well as of the maximum total of savings deposits receivable and of loans that may be taken up by the society.
- (8) Absence of profit-seeking : dividends, if paid, being usually limited, as a maximum, to the rate of interest paid by borrowers of loans.
- (9) All profit is carried to a permanent indivisible reserve fund, which belongs to the society as a whole. This fund can never be divided among the members, not even if the society should be dissolved. If that takes place, the reserve fund

is devoted to some public, or charitable purpose.

- (10) Office-holders, except the secretary, not paid for their services.
- (11) Promotion of moral as well as material advancement of members, and in particular, the purchase of agricultural requisites for sale to members and often the procuring of agricultural machines and implements for letting on hire to members.

The aim of Raiffeisen societies how far realized :—The aim of the Raiffeisen credit societies is to improve both the material and moral condition of their members. It is not without interest to enquire how far these societies do, in fact, endeavour to promote the general social, intellectual and moral welfare of their members apart from that economic welfare which is their primary aim. A large proportion of the Raiffeisen societies in Germany insert in their articles of association clauses to the effect that subventions from the profits of the society shall be accorded for the amelioration of their members in these respects. The German Raiffeisen Federation instituted in 1908 an enquiry into these activities of its affiliated societies, and the reports received show the ways in which measures towards such ends, either initiated or supported by the societies, had materialised. The returns showed,

- 1. *For raising the level of popular education.*
 - 458 libraries.
 - 237 continuation schools.
 - 96 "Raiffeisen" evening clubs.
 - 23 juvenile clubs.
 - 24 village institutes (meeting halls etc.).
- 2. *For the benefit of children.*
 - 108 infant schools.
 - 181 children's savings banks.

3. *For the sick.*
 - 357 village nurses.
 - 20 ambulance corps and Samaritan funds.
 - 32 sets of surgical appliances.
4. *For the general benefit of members :—*
 - 329 death benefit funds.
 - 103 cattle insurance societies.
 - 109 accident funds.
 - 13 sick funds.
5. *For various objects of public utility :—*
 - 130 fire brigades.
 - 49 telephone services.
 - 20 veterinary pharmacies.
 - 70 hearses.
 - 53 cases where protection or help (veterinary and other) in the event of disease, etc., was afforded.
6. *Appliances for use in cultivation :—*
 - 3870 machines, implements and other agricultural equipment.

The results achieved in Germany.—To give some idea of the proportions which the co-operative movement has assumed in the country in which it originated, it may be mentioned that in 1918 there were in Germany 18,199 Raiffeisen Banks with a total membership of about 2 millions of persons. In the valley of the Rhine where the Raiffeisen banks have been longest at work, a transformation has been effected which Mr. H. W. Wolff describes most strikingly in his fascinating work—"People's Banks." Cultivation has been improved, industry and trade have been developed, the small cultivators are able to purchase their implements at cheaper wholesale prices, the usurers have been driven from the field, and the peasants have become small capitalists themselves. *They prefer to deposit in the Society Bank

rather than even in a Post Office Savings Bank, because the former is their own, in the management of which they have a say, and which keeps the money saved in the district to return to them "in the fertilizing dew of loans." Under the bank's teaching the members have become patterns of promptness and punctuality in their payment, because the banks will tolerate anything but unpunctuality. "It is a treat," says Mr. Wolff, "to see the simple peasants bring out their books and explain to you, with evident satisfaction and pride, what all the entries mean and how the system works from an accountant's point of view."

The Schulze-Delitzsch system : Urban Banks in Germany.—While Raiffeisen adapted co-operation to the needs and to the mental attitude of the farmers, Schulze-Delitzsch devised organizations specially suited to the needs and economic character of town dwellers. The Schulze-Delitzsch banks have, therefore, unlike the Raiffeisen banks, a large range of business in an extended area of operations ; they include members of various occupations ; they accumulate a considerable quantity of capital and they distribute fairly high dividends. They do not follow the principle of unpaid management ; on the contrary, their management is rather costly and is conducted on strict business lines. They are based, more often than the rural banks, on limited liability and they carry on a series of banking operations which the rural banks only undertake exceptionally, if at all. In fact their business approaches more closely than that of the Raiffeisen banks to banking business, properly so-called.

In spite of its wonderful success, the Schulze-Delitzsch is not an ideal co-operative organisation. Liquidations and failures are of frequent occurrence, amounting at times to 10 per cent. of the whole ; the proportion has lessened, since a biennial audit was, in 1889, made compulsory. The necessity

for taking up a large share excludes the humbler classes until they have accumulated sufficient savings. Conversions into joint-stock companies also frequently happen, the great Leipzig bank being the most prominent illustration of this ; in such cases, the union of interests between lenders and borrowers disappears, and preference is given to larger business—higher rates being charged on the smaller transactions. The exclusion of the poorer classes, and the absence of sufficient consideration for the borrower are among the causes of this departure from co-operative principles. The commission allowed to the directors increases the possibility of encouraging risky or speculative business—a practice expressly prohibited in all other systems of popular and agricultural banks. The dangers of unlimited liability, when the direction of affairs is not committed to the persons who sustain this liability, are very apparent ; many retired members have been ruined by calls made on them. The managers, on the other hand, are to a large extent indemnified by their commission, which acts as an insurance, and relieves them of a portion of the burden of the unlimited liability.

Sir F. Nicholson after careful investigation, admits that the Schulze-Delitzsch banks have done a good deal for agriculture, and are capable of doing more, but that *they do not reach the smallest cultivators*, owing to (1) shortness of loan-term, (2) extension of working area, (3) absence of control over use to which loan is put, entailing loss of a chief security for the loan, (4) absence of educative influence on the borrower, and (5) pursuit of high dividends. Mr. Wolff, however, quotes several examples to show that these banks, when well-officered, and managed with common-sense, are "perfectly capable of meeting the requirements of agricultural credit, so far as they are strong in capital or credit, or else in a steady receipt of deposit." He maintains that these banks, if properly managed, are in a peculiarly favourable

position for granting agricultural credit for the needed periods ; they are usually well-established, well-known, and possess abundant capital. They are mainly industrial banks, and since agriculturists borrow most in bad times, when tradesmen restrict their borrowing, one class of credit business should dovetail into the other, to the convenience of the bank.

Differences between the Raiffeisen and Schulze-Delitzsch systems.—Compared with the ordinary urban credit societies of the Schulze-Delitzsch type, which were originally organized for the special purpose of furnishing credit to small traders, employers and artisans in towns, many important differences appear in Raiffeisen societies. (The areas of the Schulze-Delitzsch banks are not narrowly limited ; shares are highly priced, being rarely less than £15, and sometimes reaching £75 and £100 ; there is no indivisible reserve ; loans are usually made only for terms of three months when they are subject to renewal and are repayable in a lump sum ; dividends, sometimes very high dividends, are paid ; regular banking offices are maintained with at least two permanent paid officials, who form the committee of management, while the members of the board of supervision receive remuneration ; the banks confine themselves to pure banking business ; and their offices are usually in towns.)

It is a remarkable testimonial to the Raiffeisen banks that no bankruptcies have occurred ; all losses have been covered by the reserve, and no general contribution has been required from the members. This contrasts favourably with the record of the Schulze-Delitzsch banks, and certainly seems to merit the praises unanimously bestowed on the Raiffeisen system. "Usurers have been ousted, and the peasants given a new chance with new hopes ; men are tempted to save, taught to use savings productively ; idle hoards are gathered in, and used profitably ; the spirit of association is developed, habits of business taught, new ideas inculcated, and new

methods of economic and social progress encouraged and developed." While Schulze-Delitzsch aimed at founding popular credit for all classes, especially artisans and tradesmen, Raiffeisen thought only of the rural classes. Each system is based on the principles of self-help, solidarity, and thrift; but Raiffeisen added to these, unselfishness in that he forbade dividends. All profits in his system, less the necessary fixed legal interest on the shares, themselves very small, are placed in a common fund to be used for public purposes.

Raiffeisen asked no privileges from the State, considering such aid to be mischievous, as stifling self-reliance. It is open to question, however, whether he was quite justified in taking up such a strict attitude on this point. The "infant industry" argument of political economists might, at least, in some cases, be applicable to these banks. Success may have at times been delayed for want of funds at the start, and a small grant from the State in pressing cases—with the strictest precautions to avoid misuse—might have been given with benefit. Still it is preferable to err on the side of obtaining too little Government aid than too much; and the success of the Raiffeisen bank must—in the absence of State aid and privileges—be acknowledged to be entirely due to their intrinsic merits. In recent years the German Government has, it appears, made several advances to these banks in the shape of rewards, and as helps to audit.

Finally, while Schulze-Delitzsch considered thrift and saving the chief factors in credit, Raiffeisen aimed chiefly at arousing an unselfish public spirit; by forbidding dividends he avoided any clashing between the interests of borrowing and of non-borrowing members. His difficulties were much greater than those of Schulze-Delitzsch, for he had to solve the problem of advancing small loans for long terms to borrowers who, though they possessed some property, obtained their profits "in small instalments, after considerable

delays, and with a certain amount of precariousness and uncertainty."

From the above it would appear that the Schulze-Delitzsch bank is formed on the principle of a joint-stock bank. Like the joint-stock bank, it raises its initial capital by means of shares and offers the share-capital as security to those who deal with it. Each member of such society is required to take up and pay for at least one share of a fixed value. The liability of the members is limited to the value of the shares* ; and if the bank suffers any loss it will fall on the share-capital. It, therefore, affords a guarantee to the public and intending depositors that the bank will be managed in such a way that no loss will be incurred ; otherwise the members will be the first to suffer.

✓ **Luzzatti's Peoples' Banks in Italy.**—As the Schulze-Delitzsch and Raiffeisen systems are fairly representative of the various organisations of popular credit in other countries, it will be unnecessary to do more than briefly outline a few other systems, chiefly in their relations to agriculture. The Italian societies have a most interesting history, for Italy was a very unpromising field, a country sunk from former greatness, poor, yet burdened with taxation, with a population uneducated, very suspicious, highly conservative, commercially undeveloped, and mostly agricultural. Usurers reaped an enormous harvest in that unhappy country. As was the case in Germany, an individual proved the benefactor of his people. Signor Luzzatti had learned co-operative credit from Schulze-Delitzsch, but recognised, that to meet the needs of

* The liability of the members may be limited to the value of shares or to a certain multiple of that value. In the latter case, each share carries an extra liability, and every member is liable not only for the full value of shares, but for an additional amount proportionate to such shares as laid down in the bye-laws. Some societies prefer to have an extra liability, in order to strengthen their financial position in the money market and to obtain greater credit. Extra liability also ensures greater stability and very careful management by the shareholders.

Italy, alterations in that system were necessary. He therefore condemned "*unlimited liability*", and instead of large shares payable over long periods, he adopted the plan of small shares payable in ten months at longest. He also issued shares at a higher value in proportion as the reserve increased with the idea of making a new member pay for the share he acquires in the reserve, although that share cannot be claimed or drawn out. He also allowed any one member to hold more shares than one, up to £200, the legal limit. ✓

The success of these banks has been astonishing. The friendly societies already existing in Italy gave valuable aid, and largely furnished the members. Luzzatti, unlike Raiffeisen, did not wish really to have poor people in his banks—at least at the commencement—and insisted on an entrance fee, unreturnable in case of retirement. Loans are usually on short-term bills for three months, and are seldom renewed for a second three months. Agricultural loans are, however, granted even ten renewals; but it is plain from the returns that these banks fall far short, as do the Schulze-Delitzsch banks, in supplying agricultural credit. Mr. Wolff considers that if a Luzzatti bank be established in an agricultural district, and has a certain amount of general business to rely on, it may dispense loans to small agricultural folks (only, however, for short terms); but, that, generally speaking, a Luzzatti bank is suitable rather for a comparatively dense population.

Agricultural Co-operative Syndicates are numerous in Italy. If the members of one of these syndicates wish to obtain credit for the purchase of goods, they either join or form a co-operative bank, which gives them "cash credit" secured by sureties. A member obtaining such credit assigns it in whole or in part to the syndicate, which opens him a corresponding credit for the purchase of the articles in which it trades. If he does not utilise this credit he need pay nothing. This

method appears, Mr. Wolff thinks, to be one likely to help farmers over the difficulties of co-operative supply and the want of ready cash. "The farmer buys, practically on credit like our own poor or thriftless farmers, but having made sure of a credit with the bank, he, at the same time, obtains all the benefits of cash payment and co-operative purchase in respect of price and quality, being charged only a moderate interest upon the money actually drawn."

The Wollemborg-Raiffeisen "Casse Rurali."—

The great success in Italy of the Wollemborg-Raiffeisen "Casse Rurali" among agriculturists is further striking evidence in favour of Raiffeisen principles in agricultural credit. In 1883, Signor Wollemborg opened his first rural bank, on Raiffeisen's lines, at Loreggia, and, in 1887, twenty-seven of these banks received in cash £26,116, and disbursed, in agricultural loans, £25,540. They closely resemble Raiffeisen banks in their essentials, but a few differences exist, e. g. (1) Italian law does not insist on a share capital, (2) no Government subsidies are received, (3) long-term loans are granted, but by three months bills periodically renewed. This method is said to make the borrower realise the conditional nature of the loan, since the renewal can be refused if the loan is not used in the manner for which it was granted. The success of these banks in granting small rural credit is remarkable, and their position seems assured.

CHAPTER II.

RURAL INDEBTEDNESS IN INDIA.

According to the census of 1911 agriculturists in India number twenty-two and a half crores and they form 71 per cent of the total population in the whole of India including the Native States. And what is the general condition of the common agriculturist in India ?—well—

Bowed by the weight of centuries, he leans
Upon his hoe, and gazes on the ground,
The emptiness of Ages in his face,
And on his back the burden of the world !

The one universal truth in regard to agriculturists all over the world is that they must borrow. Another fact that is equally true of almost every country in the world is that it has been always difficult to obtain agricultural credit, because the individual credit in the case of the agriculturists is small and the whole of the banking credit has been confined to commerce and industries. At the same time agriculturists as a class cannot avoid borrowing. But unfortunately they have never been able to obtain cheap and easy loans, principally because the credit they could offer was small. It is also unfortunate that while commercial credit can be obtained easily and cheaply on scraps of paper, agricultural credit, although it can offer tangibe or real security—such as live stock, land, or standing or future crops—has invariably been far dearer than commercial credit. The reasons appear to be as follow (1) the ignorance of the agriculturists ; (2) their distance from the towns where banks are situated ; (3) the reluctance of the banks to extend small transactions to villages among an ignorant people ; and (4) the want of sufficient knowledge

regarding the substance or integrity of the borrower. For these reasons it has always been necessary in India—where agricultural indebtedness has for a long-time been a growing evil—that the agriculturists should have some form of cheap and facile credit—not so facile, however, as to lead to extravagance and abuse—adequately surrounded with proper safeguards. Credit has been aptly compared to fire, which is useful only when kept under strict control. “Free, unrestricted credit to agriculture in isolation is a positive danger ; credit in association, guided and influenced in its use by the wiser counsels, by the increased self-respect and self-restraint which association produces, is a powerful restorative, an educative and disciplinary agent, a national necessity.” Guarded and productive credit, then, not merely cheap credit, is what is needed ; organised credit will act as a restraint on the borrowers, and prevent unintelligent or extravagant use of the loan. The development of the man himself should be facilitated, and not merely the rapid spread of banks ; any movement which aims only at the latter object is one-sided and radically defective.

This subject of rural indebtedness in India is one of the most chronic and difficult problems which the Government of India have been called upon to solve. The Famine Commission of 1880 drew attention to this question in the following words—“ We learn from evidence collected from all parts of India that about one-third of the land-owning class is deeply and inextricably in debt and that at least an equal portion is in debt, though not beyond the power of recovering themselves.” We find a gloomier picture of the indebtedness of the agriculturists in the report of the Famine Commission of 1901—“In his evidence before us the Chief Secretary of the Bombay Government said that 28 per cent of the land in Broach had passed into the possession of the money-lending classes ; and from a report of the Collector

of Ahmedabad, it appears that in his district, expropriation of the old owners has also made considerable way. Taking all these statements into account, and comparing them with the evidence we have recorded, we think it probable that at least one-fourth of the cultivators in the Bombay Presidency have lost possession of their lands, that less than a fifth are free from debt, and that the remainder are indebted to a greater or less extent."

According to that most competent observer, Mr. William Crooke, from 56 to 78 p. c. of our cultivators are in debt. Sir Theodore Morrison thinks that the average is about two-thirds of the whole body of cultivators who generally borrow from the village money-lender at exorbitant rates of interest. From a return furnished at the first All-India Registrars' Conference held at Simla in 1906 we find that the rates of interest charged by the village money-lender on agricultural loans to ordinary cultivators are,—

<i>Provinces.</i>	<i>Rates.</i>
Madras	12 to 15 per cent.
Mysore	12 ..
Bombay	12 to 15 ..
Central Provinces	18 to 25 ..
Bengal	18 to 25 ..
Eastern Bengal	18 to 24 ..
Assam	37½ ..
Punjab	24 ..
Oudh and Meerut Divi- sions of the U. P.	12 to 18 ..
Other Divisions of the U. P.	37½ ..

According to Mr. Ascoli the highest rate of interest recorded in the Dacca District amounts to 150 per cent ; but the rates ordinarily in vogue there are 24, 37½ and 75 per cent : the average rate there works out approximately at 75 per cent

per annum. Writing on "Co-operation in the Punjab" in the *Irish Economist*, Mr. M. L. Darling says—"I know of a debt of Rs 26 that in 10 years grew to Rs 500. I know, too, of a man who after leaving his society promptly rejoined it because his *Sehukar* was rash enough to charge him 33 per cent on a two months' loan which is equivalent to 200 per cent a year." According to Mr. Wolff "there are oppressive debts for which raiyats are charged from 25 to 75 and sometimes 100 per cent. and even more—one Registrar instances a case of 1340 per cent !"

A special difficulty arises from the fact that agriculturists in India want loans for purposes other than agriculture : for these loans they have to fall back upon the money-lender. The result is that the common cultivator lives in debt year in, year out, and is too often ruined by the *mahajan* (the village money-lender). In most cases the cultivator is over head and ears in debt to him and can hardly get out of his clutches. At harvest time, he is compelled in a great many cases to sell his produce to the *mahajan* at the *mahajan's* rate and is cheated only too often in the weightment as well as in the rate. The bulk of the money he earns goes to pay the rent and the too heavy interest on his former loans. Between harvests the poor man has to borrow again for the necessities of life, and this hopeless cycle of heavy loans and meagre repayments plunge him deeper and deeper in debt.

Nor is the case of the poor artisan in the villages any the better. The weaver, the boat-builder, the blacksmith, are all in the same state of chronic indebtedness. For the purchase of raw materials the artisan has to borrow, and so pressing is the demand of the *mahajans*, that he is compelled to sell off his manufactured produce at once at what price he can get, too often to the *mahajan* himself. He has to borrow for his food and his clothing, for the payment of rent, for

every necessity and luxury of life. He has to borrow his capital and he borrows it at an enormous rate—and too often he cannot get sufficient capital for his needs. Sir Daniel Hamilton expressed these circumstances very tersely when he said that one must buy one's finance cheap and sell one's produce dear to make one's industry profitable, but the Indian artisan and cultivator buy their finance dear and sell their produce cheap, and the consequence is that they are imposed on at both ends, and live in perennial poverty with scarcely any hope of bettering their position.

The reason for this deplorable state of affairs is to be found in the villager's want of thrift. Want of training as to how to save and put by, hereditary instincts and customs of extravagance at weddings and other ceremonies, and above all, the want of a safe place where to keep the savings—all these contribute to the absence of thrift among the Indian rural folk. The result is that the majority of our villagers are absolutely dependent on the village *mahajan* or *sowcar*—as absolutely, in fact, as they are on the rainfall or on the sunshine. The *mahajan* supplies the capital which maintains the cultivator and his family while the crops are maturing, and he furnishes the means to meet exceptional emergencies, such as the loss of stock or the celebration of a marriage. But there are certain defects in the methods of money-lending by the *mahajan* viz.,—

- (1) doing business with an insufficient amount of capital ;
- (2) a desire to defraud the innocent borrower or to possess his land ;
- (3) reluctance to receive repayment in small instalments ; and
- (4) the tendency to grant loans for unproductive purposes, because the *mahajan* is anxious to promote his own selfish interests by the ruin of his client.

All these defects could be remedied by means of co-operative credit societies. They supply sufficient capital for the needy members ; they take money in small instalments, as they keep regular accounts of their transactions with their borrowers ; they have no fraudulent desire to ruin one of their own members ; and, above all, the members who manage these societies acquire a training in business methods and organisation which fit them for local self-government. But various stages had to be passed through before these societies were introduced into India. We now proceed to summarise them.

CHAPTER III.

PRELIMINARY EXPERIMENTS IN INDIA.

It was in 1882, on the initiative of Sir William Wedderburn who was then District Judge of Poona, that the Government of India proposed to the Government of Bombay the experimental establishment of an Agricultural Bank in the Purandhar *Taluqa* in the district of Poona for providing capital to agricultural classes on reasonable terms. The principle of operation of the proposed bank was to borrow money at moderate interest from capitalists, whether Indian or European, who were willing to lend, and to lend it to ryots at a higher rate, but at one considerably lower than that commonly exacted by the *sowcar*. The security was the ryot's industry and honesty, attested by the fact that he had till then been able to live, while paying as much as 24 per cent on his borrowed capital, and had scrupulously paid his debts whenever it was possible for him to do so.

The Government of India were prepared to clear the way for this experimental bank—(1) by liquidating the debts of the agriculturists within the selected area, on the understanding that the Government advances would be taken over by the bank when it started business ; (2) by allowing the bank, for a time at least, to recover its loans through the revenue courts ; (3) by assigning in some cases priority to its loans ; and (4) by remitting stamp duty and other dues for a certain period in its favour. The Bank was to be at liberty to make loan for any purpose or to any person having a transferable interest in land within the *Taluqa*, but it was to engage to limit the rate of interest on all loans to a maximum of 12 per cent and to conform, in respect to other matters, to the rules prescribed by the Government.

The Secretary of State, however, did not approve of these recommendations to assist private enterprise in the manner proposed. He showed that there were very great difficulties in the liquidation of the agriculturists' debts and in advancing fresh loans. He also said that if a private bank were to be assisted by Government machinery in the recovery of its debts, it would virtually be a Government institution, and the Government would incur all the unpopularity and odium of collecting debts which, though private obligations, were treated as public demands. The scheme was, besides, unpractical and financially unsound. It was accordingly dropped.

Although the scheme fell through, yet it must be conceded that Sir William Wedderburn was the first to perceive the magnitude of the Agricultural Indebtedness Problem in India and to devise practical means to solve it. The thought current started by him ultimately gave birth to the idea of introducing the Co-operative Credit Movement into India, for, the problem, as originally perceived by him, has been always the same *viz.*, how to supply the Indian ryot with capital without the loan becoming the cause of his ruin.

The same problem presented itself in Madras. In 1892 the Madras Government directed Mr. (afterwards Sir) F. A. Nicholson to furnish a report on the possibility of introducing into the Madras Presidency a system of Agricultural or other Land Banks. He took immense pains in examining the agricultural credit organisations of Europe and America, and was for many years engaged in this work. The result of his labours is embodied in his voluminous "Report on Land and Agricultural Banks" which is "a monument of research and a perfect store-house of information" giving a general sketch of the various systems of agricultural credit. The discussion thus initiated by Sir Frederick Nicholson's memorable work was continued by Mr. Dupernex, a civilian in the

United provinces, in his "People's Banks for Northern India."*

The Government and Government officials continued to take greater interest in the movement. In the Hindu caste system, in the Moslem sentiment of common brotherhood and "one for all," in the Panchayet system, and particularly in the *Nidhis* of Southern India, they found ample evidence of the people's natural aptitude for co-operation. Something should be said here about these *Nidhis* or indigenous Mutual Loan Funds.

The *Nidhis* originated in Madras in the fund called the Sadar Court Fund, open to officials only ; it seems to have been started about the middle of the last century when Schulze-Delitzsch and Raiffeisen were initiating the co-operative movement in Germany. But the fundamental principle *vis.*, that of association for mutual credit is found in the indigenous, "*kuttu-chittu*" system which is universal throughout the presidency. This latter system depends upon (1) association, (2) confidence, and (3) honest dealing. Briefly the system is as follows—a number of men unite to subscribe periodically a small sum each ; say fifty men agree to pay one rupee per month for fifty months ; each month fifty rupees are subscribed, and lots are drawn for the total sum ; the winning lot takes the pool ; next month the same fifty subscribe, but in drawing for the pool previous winners are excluded ; this continues for the whole fifty months till each subscriber has received Rs. 50. This practice gives men

* From this time onwards Mr. Henry Wolff, the recognised co-operative leader in Great Britain, began to evince the keenest interest in the development of the co-operative movement in India ; his rich and varied knowledge of co-operation in all its aspects was placed at the disposal of officials and non-officials, and every Registrar of co-operative societies has reasons to be grateful to him for his valuable advice and guidance. To him Indian co-operators owe a heavy debt of gratitude and they can best repay it by holding aloft the high ideals of co-operation preached by him and by becoming, like him, life-long missionaries of the healing, uplifting and spiritualising gospel of co-operation.

the use in lump of a considerable capital, repayable by small and easy instalments ; it is most useful for building houses, starting a shop, buying a pair of cattle or a piece of land.

A further development, however, is next found ; the subscribing members, or more usually, the promoters of the fund, desired to obtain definite and increased profits for themselves, drawn from the need of the subscribers ; instead, therefore, of drawing for the pool, it was put up to auction in lump or in lot ; the lowest bidder took the lowest sum below Rs. 50, say 40, obtained only that sum, but gave a chit or promissory note for Rs. 50 ; the difference, Rs. 10, was divided as profits among the other members.

The first *Nidhi* further developed the system ; about 1850 certain employees discovered that they were being ruined by usurers and determined to start a fund to give persons of fixed income a chance of borrowing at equitable rates. The first fund was a "terminating" society with a seven years' period ; each subscriber agreed to pay for 84 months, when the fund would be wound up and shares repaid at Rs. 102½ per 84 received. From the collection loans were granted to members at 6½ per cent interest with penalties for delay ; the loans, repayable by the monthly subscriptions, were usually on mortgage and the order of granting them was determined by lot.

The next step was to make the societies "permanent" ; that is, fresh series of shares were periodically and frequently issued, and it was these only, and not the society, which were wound up as each series matured so that subscribers were continually coming in and going out. The essence of these societies is mutuality ; it is a group of men united to help one another by common contribution of funds which are to be lent out to members only for their sole benefit ; all profits derived from the transactions are to return to mem-

bers, so that all benefit—the non-borrowing members by the receipt of profits, the borrowing members by the use of the loaned capital and by a portion of the profits which they have contributed to the society.

These *Nidhis* find their clients among a more educated and advanced class than the rural agriculturists to whose needs their constitution is not well adapted. But the fact that, notwithstanding numerous failures, and much discredit attendant upon a period of speculation they attained a considerable degree of success (since in 1903 they included some 36,000 members with a paid up capital of 75 lakhs), suggested to many high officials the possibility of establishing true co-operative credit societies among the Indian people.

Before, however, any legislation was undertaken by the Government for introducing co-operative credit societies into India, Sir Anthony (now Lord) Macdonnell did the pioneering work by establishing in 1901 two hundred co-operative credit societies in the United Provinces. In the same year the Government of India, impressed with the importance and the future possibilities of the co-operative movement, appointed an influential committee to consider the question of the establishment of agricultural banks in India.

This committee consisted of Sir Edward Law as President, Sir Frederick Nicholson, Sir Bamfylde Fuller, Mr. J. Wilson, Mr. Reginald Murray and Mr. H. Dupernex. The Committee assembled at Simla on June 1st, 1901, and dissolved on July 10th after holding altogether 16 meetings. The Committee confined their attention to banking on the basis of co-operative credit, because the "agricultural banks" which had been so successful in improving the condition of the poorer classes in European countries rested upon co-operative credit. In concluding that a system of co-operative credit was capable of affording great benefits to the agricultural community of this country the Committee had the

general support of the opinions expressed, in the reports received from the various Local Governments.

They accordingly accepted the establishment of Co-operative Credit Societies as the object in view, and considered the lines on which such societies should be worked, the privileges which should be accorded to them and the extent to which it might be advisable that they should be aided by Government funds and subjected to Government control. They also considered in their luminous report what practical form or forms a society constituted on these principles should assume and drew up two model schemes of management for two classes of societies which they contemplated. Finally they discussed the extent to which legislation was required to secure to such societies as might be started the privileges which they recommended for them and to provide for their due working and supervision. They embodied the result of their deliberations in the form of a draft bill.

CHAPTER IV.

THE CO-OPERATIVE CREDIT SOCIETIES ACT OF 1904 AND THE AMENDED ACT OF 1912 : THEIR RESULTS.

The draft bill drawn up by the Committee presided over by Sir Edward Law was referred to the Local Governments for criticism, and it was upon a consideration of the replies that the Government of India took action by introducing—on October 23rd, 1903—the Co-operative Credit Societies Bill. Sir Denzil Ibbetson defined the precise object of these societies to be “the encouragement of individual thrift, and of mutual co-operation among the members, with a view to the utilisation of their combined credit, by the aid of their intimate knowledge of one another’s needs and capacities, and of the pressure of local public opinion.”

“The main object of our endeavours,” said Sir Denzil in his introductory speech, “is to assist agricultural credit, which presents a far more important and more difficult problem than does industrial credit. But we recognize that artisans, employees on small pay, and other persons of small means residing in towns, may very properly be admitted to the benefits of our legislation. We therefore provide for two classes of societies—*rural*, which are composed of agriculturists (a term which is not intended to include the wealthy rent-receiver), and *urban*, which consist of artisans or other persons of limited means. * * * In the case of both classes we provide that the members must be small men, for we are not legislating for capitalists ; that they must be residents of the same neighbourhood, else the knowledge of one another which is to guide them in their operations will be wanting ; that new members shall be admitted by election only, thus securing that mutual confidence which is the only

possible foundation of co-operation ; that a man must be a member before he can borrow from the Society, and must in that capacity have contributed to the funds of the Society, since our basis is mutual co-operation ; that money shall not be lent on mortgage so that the capital may be liquid, and capable of ready realisation ; that the interest in a Society which may be held by a single member is to be limited, in order to prevent an individual from obtaining control ; and that shares can be transferred subject only to certain restrictions which are intended to prevent speculation. We provide for a simple form of registration ; for compulsory dissolution, subject to appeal to the Local Government, in order to meet the case of fraud, or of bogus co-operative societies which may have obtained the benefits of the Act while not pursuing its objects ; and for liquidation under a simple procedure, and subject to appeal to the Civil Courts.

"In the case of rural Societies we further insist upon unlimited liability, as best suited to the agricultural classes to whom they are confined and most consonant with the mutual confidence which is to form their basis ; we lay down that no profit is to be directly divided among the members, since their object is not to make money, but to assist one another, and any surplus that may accrue should either be carried to a reserve fund, or be applied to reducing the rate of interest upon loans : and we forbid the society to borrow money without sanction, for it would often be worth the while of a money-lender to risk his money in order to get a successful society into his power, and so to rid himself of a rival. We prohibit pawn-broking, since the basis of the operation should be personal and not material security ; but we allow agricultural produce to be received as security or in payment, and to be converted into money at any time by the society, which will generally be in a position to get a better price for it than an indebted cultivator could obtain.

"In the case of urban societies we allow of limited liability and the distribution of profits, subject to the creation of a sufficient reserve fund and we allow them to lend money to a rural society which is situated in the same district, and with the circumstances of which they have therefore the opportunity of being acquainted.

"Having thus provided for the constitution of our societies and regulated their operations, we proceed to confer upon them certain privileges. We exempt the shares or other interests of members in the capital of a society from attachment for their private debts, thus encouraging thrift, and giving stability to the operations of the society ; we relieve societies from the necessities for letters of administration or a succession certificate ; we give them a lien upon certain forms of property when created or acquired by means of a loan from them, until the loan is repaid ; and we make an entry in the books of a society *prima facie* evidence in a suit to recover money due to it. We take powers for the Governor-General in Council to exempt societies and their operations from income-tax, stamp duties and registration fees ; and it is our intention to act upon those powers, at any rate, in the first instance.

"Finally, we provide for compulsory inspection and audit by a Government officer, in order to provide against mismanagement and fraud, to give the members and the public confidence in the societies ; and to justify the privileges which we confer upon them, we make Government advances recoverable as arrears of land-revenue. We confer a wide rule-making power upon local governments while indicating certain heads under which it will probably be advisable to exercise it ; and we declare that the provisions of the Indian Companies' Act shall not apply to societies registered under the new law."

On the 25th of March, 1904—a red-letter day in the annals of Indian legislation—the Co-operative Credit Societies

Bill was passed "to encourage thrift, self-help and co-operation among agriculturists, artisans and persons of limited means." By this Act Local Governments were empowered to appoint Registrars of co-operative credit societies, whose duty it would be to scrutinize applications for registration under the Act. Subject to the provision that any association of not less than ten persons might be registered by special order of a Local Government, the Act laid down that a society should consist of persons residing in the same town or village or the same group of villages or, subject to the sanction of the Registrar, of members of the same tribe, class or caste. Societies were classed as "rural" or "urban," and it was laid down that four-fifths of the members must be, in the first case, agriculturists, and in the second, non-agriculturists. In the case of rural societies the liability of the members was to be unlimited, unless a departure from this rule were specially sanctioned by the Local Government; in the case of urban societies, liability might be either limited or unlimited, as might be provided by bye-laws or rules made under the Act. Profits, in the case of a rural society, were, in the first instance, to be carried to a reserve fund, or applied to the reduction of the rate of interest, and a bonus might be distributed only when requirements in these directions had been fully met. Urban societies were also to carry at least a quarter of the annual profits to a reserve fund; loans were to be made only to members, or, subject to the consent of the Registrar, to a rural society. Limitations were placed on the interest in a society that might be held by a single member, and on the transfer of shares. Privileges included the exemption of a member's shares or other interests in the capital of a society from attachment for private debts, the grant to societies of a measure of priority over ordinary creditors in enforcing claims on crops, cattle &c., and the provision for exemption, at the discretion of the Government

of India, from income-tax, stamp duties and registration fees. Provision was made for compulsory inspection and audit by the Registrar, for compulsory dissolution subject to appeal to the Local Government, and for liquidation under a simple procedure; finally, wide rule making powers were conferred upon Local Governments.

The policy of the Government underlying the above provisions had been to allow the utmost freedom to organisers in each case to start their society on such lines as appeared to them suitable, provided that the rules framed did not contravene the Act in any essential matter.

Many were the hopes and fears of the members of the Imperial Legislative Council at the time when the Bill was introduced. "Our co-operative credit society is but a frail barque launched upon a treacherous ocean," said the Hon'ble Mr. (now Sir Harvey) Adamson, "but if it can escape from being wrecked by the opposition of the money-lender, if it can avoid being stranded on the shoals of mutual distrust among its members, if it can carry safe to port a portion of its cargo of self-help and co-operation, it will some day rank as the most important bill ever passed by the Government for the betterment of the Indian agriculturists." Some doubted that its principles would not be as easily understood and acted upon as it has been done by European agriculturists. But this doubt would appear as groundless when we read Sir Frederick Nicholson's description of the condition of the European masses among whom these societies originated. Says Sir Frederick in his *"Report on Land and Agricultural Banks"*—"the masses of French, German and Italian peasants were, and to a great extent still are, ignorant, suspicious, conservative, isolated and poor, holding land in small and diffused patches, exploited by usurers, incapable of associated effort, unable to comprehend and unwilling to adopt new methods, however useful, new improvements, how-

ever obvious. The description of the peasantry of the Rhine provinces in Germany, of the interior of France and of Italy, as given by their own as well as by foreign observers, shows that, as regards rural banking, the prospects of the masses in the countries named were little, if at all, better than those in the Madras Presidency of the present day."

The defects of the Act of 1904 : remedied by the Act of 1912.—Within two years of the passing of Lord Curzon's epoch-making measure of 1904, 800 societies had sprung into existence. The number steadily increased from year to year and before long the provisions of the law—which were necessarily of an experimental nature only—were found to be in some respects faulty, and in others inadequate. The need for a free supply of capital had led to the formation of various central agencies to finance and control the individual credit societies, but the Act of 1904 provided for no formal recognition of joint or central societies formed of other societies. The distinction in treatment between rural and urban societies was found in practice to be unnecessary and a more scientific distinction based on the nature of the liability of members, whether limited or unlimited, was adopted in its place. There was, moreover, no provision in the old Act for any form of co-operation other than co-operative credit. To remedy these and other minor defects which experience had brought to light, a new Act was passed in 1912, which made provision for the expansion of the movement, and whose principal features were that it authorised the registration of co-operative associations for purposes other than credit, removed the former arbitrary classification of societies as urban and rural, and substituted for it a scientific distinction based on the nature of the liability adopted, and finally it legalised registration of unions, central banking unions and central banks.

The effect of the new Act of 1912.—The immediate effect of the passing of the new Act of 1912 was to infuse a fresh energy into the movement. New types of societies for the sale of produce, cattle insurance, milk supply, yarn, silk and manure purchase, and the retail of farm implements and common necessities, had been registered and in most cases seemed to be prospering. The number of credit institutions was growing rapidly and the confidence of the public was being won in greater measure every year. In 1914 the Government held that the time had come to take stock of the position and on the 17th June of that year issued a comprehensive Resolution (reprinted as an Appendix to this book) reviewing the progress that had been made and laying down in general terms the practical lessons that might be drawn from experience up to date. But the sums involved in the movement were becoming very large, the arrangements for financial management in the stages above that of the primary society were becoming complicated, and the principles for the conduct of inspection and audit remained indefinite and uncertain. It was felt by Government that it could not take the responsibility of fostering and supporting further growth unless it was satisfied that the movement was proceeding on lines economically and financially sound.

The appointment of the Imperial Committee on Co-operation.—It was to enquire into and report on this aspect of the question that a representative committee of officials and non-officials presided over by the Hon'ble Sir Edward Maclagan was appointed by a Resolution of 8th October, 1914, and the reference made to it was expressed in the following words :

“The primary duty of the Committee will be to examine whether the movement, especially in its higher stages and in its financial aspect, is progressing on sound lines, and to

suggest any measures of improvement which seem to be required. For this purpose the enquiry will be directed primarily to an examination of such matters as the constitution and working of Central and Provincial Banks, the financial connection between the various parts of the co-operative organization, the audit, inspection and management of all classes of societies, the utilization of the reserve and the manner in which reserve funds should be exhibited in the annual accounts. At the same time the Government of India do not desire rigidly to limit the scope of the enquiry and the Committee may, at its discretion, consider and make recommendations regarding any important aspect of the co-operative movement."

The Committee toured for four months visiting various centres in the major provinces of India and examined in this period 93 witnesses, official and non-official, inspected 135 societies of various kinds, and in addition, interviewed the managers and agents of several joint-stock banks. The publication of the Report of the Committee in 1915 will for a long time to come stand out as a landmark in the economic history of India, for the co-operative movement must go on, and the Committee are right when they say that "it is impossible to doubt that it will eventually attain dimensions compared to which its present size will appear negligible." The Report is confined mainly to a consideration of agricultural credit societies : a summary of its recommendations is given in an appendix to this volume.

A general review of the progress of the co-operative movement in India from 1906 to 1920.—"In India the magic touch of Co-operation almost at once conjured up success. It was a second *veni, vidi, vici*." That is how Mr. Wolff begins his description of the progress of Co-operation in India and his remarks are well justified for at the end of the official year 1919-20, there were altogether

40,772 Co-operative Societies in all India* (including the four Native States of Mysore, Baroda, Hyderabad and Bhopal) with 1,521,148 members and a working capital of Rs. 21,40,71,000. In British India there were 37,254 Co-operative Societies of all kinds with 1,381,480 members and a working capital of Rs 19,68,86,000. If we compare these figures with those of 1906-7, we find that in the course of thirteen years the number of societies, the number of members and the amount of working capital have been multiplied by 48, 16 and 90 respectively.

The fact cannot be denied that the progress of the co-operative movement—specially the credit co-operative movement—has been phenomenally rapid, indeed, so rapid has been the progress that Sir Robert Carlyle apprehended that the chief danger to the co-operative movement was that “we might be tempted to go too fast and outgrow our strength.” He pointed out that one good society did more good for the co-operative cause than twelve indifferent ones, as one society well run on sound co-operative lines did good not only to its own members but also outside throughout the neighbourhood in which it was working. But according to Sir Edward MacLagan “the progress made has been of a healthy and definite character,” and Mr. Fremantle thinks that “this rate of increase is likely to be maintained for some time, since the institution of new centres of organization and control is rapidly spreading the knowledge of the system over wider and wider areas and facilitating the formation of new co-operative societies.”

But even this rate of progress is not rapid enough in the opinion of some of the best well-wishers of the co-operative

*“The number of societies in British India alone at the time of writing (March, 1922) will be about 50,000 of which 90% are primary agricultural societies, 7% non-agricultural and 3% are central banks, unions, and other secondary institutions” (Strickland's *Co-operation in India*, p. 36.)

movement in India. Sir Daniel Hamilton, in one of his speeches at a session of the Bengal Provincial Co-operative Conference, complained that at the present rate of progress, generations would pass from the cradle to the burning ghat before the co-operative movement could be propagated in the hundred thousand villages of Bengal. Mr. Ascoli, in an article in the *Bengal Economic Journal* makes little of the efforts of the co-operative movement in Dacca in comparison to the task which lies before the movement. Major Jack in his book on "*The Economic Life of a Bengal District*" goes much further than Sir Daniel Hamilton or Mr. Ascoli and states that at the present rate of progress the co-operative movement cannot hope to cope with the debts of the district of Faridpur in less than a thousand years. Sir Daniel Hamilton and Major Jack both agree that Government should turn a flood of officials loose in Bengal for the propagation of the co-operative movement. The former wants to see 100 Registrars and 1000 Inspectors for the Presidency of Bengal: Major Jack wants 200 inspectors or propagators for each district.

While admiring the zeal of these true friends of co-operation in India one is bound to admit that their advice, if followed, cannot lead to a healthy growth of the tree of co-operation in India. Co-operative growth, like all other growths, must be spontaneous and gradual. The seed must be sown on prepared soil—well-ploughed, well-manured and well-irrigated. In order that the seed of co-operation may fructify, the minds of men must be well saturated with co-operative ideas, and the men must spontaneously desire to form themselves into co-operative societies: otherwise the societies would in most cases,—as experience amply proves—be mere forced growths which would prove unhealthy and would wither away at the touch of the first blast of winter. We should remember in this connection Mr. Wolf's dictum—

"One good bank will make the running for a host of others. Bad banks will only frighten people off from the path on which we invite them to walk. Therefore let us make sure of making *a sound start rather than a rapid one.*" Any attempt at forcing the pace will strike at the root of co-operation—self-help. We should remember in this connection that Sir Horace Plunkett had to make fifty at'tempts before the first co-operative creamery was started in Ireland. Very recently a policy of rapid artificial expansion has been tried in Madras and the result of that policy is that "of the 5207 agricultural credit societies, 2158 worked at a profit and the remaining 3049 at a loss." (*Madras Registrar's Report for 1920-21*) The comments of the *Madras Bulletin of Co-operation* (April, 1922) on this statement—expressed in rather blunt terms—expose the dangers of a policy of rapid expansion—

"This is partly the inevitable result of the wrong policy of artificial expansion. You resolve to increase the number of societies to a certain figure within a particular period and appoint a large staff to do it. You tell them they are expected to start so many societies in each district, and they know that their official prospects depend upon pleasing you * * * Number counts, not quality. * * * The present need of the movement is emphatically not increase in numbers but an improvement in quality."

This craze for quality—if carried too far—might lead to the adoption of an over-cautious "policy of brake" which will needlessly retard the numerical growth of societies. The problem is to develop the movement in such a way as to satisfy the apologists both of Quantity and of Quality. This result can be achieved not merely by the multiplication of state officers, but by ceaseless propagandist and educational activities. The greatest help that the state can, and ought to, render to the cause of the sound development of the movement is, firstly, the removal of illiteracy,

and secondly, the promotion of an intensive co-operative propaganda by a non-official agency. The Indian ryot carries on his right shoulder "a mountain of debt" (to quote Sir Daniel Hamilton) and on his left "a mountain of illiteracy." Relieve him of the mountain of illiteracy, and he will very soon become strong enough to stand erect and throw off the "mountain of debt." Education will teach him co-operation and co-operation will free him from the incubus of indebtedness. So it is not by multiplication of officers, but by a multiplication of teachers and propaganda-workers that true progress is to be achieved. Educate, Educate, Educate—that should be the watchword of all who want a steady and sound progress of the co-operative movement in this country. The education of which we are speaking here includes not merely elementary general education, but education in the principles and practices of co-operation, the latter kind of education being imparted by a band of co-operative missionaries working under the direction of a central non-official propagandist body—preferably a union of societies—financed by co-operative societies and as well as by the state.

So far as the *number* of societies is concerned, the progress achieved is satisfactory enough : but the friend of Indian co-operation may legitimately and fairly complain against the too one-sided character of the progress hitherto achieved : agricultural credit co-operative societies overwhelmingly out-number agricultural non-credit societies ; of the 37,254 co-operative societies in British India 32,558 are rural agricultural credit societies with unlimited liability. In a predominantly agricultural country like India there were in 1920 only 616 non-credit agricultural co-operative societies, *vis.* 271 societies for agricultural purchase and sale, 53 production societies, 201 production and sale societies and 91 agricultural non-credit societies of other types. The figures are no doubt disappointing : we forget that co-operative credit is only a

means to an end—not an end by itself. We are giving loans to the ryot, but we have not yet made any systematic, organized attempt to induce him to increase his crop-yield ; nor have we made any systematic attempt to organize the sale of his produce so as to give him the benefit of the high prices prevailing in the market. As most people who have read about co-operation in other countries know, co-operative credit by itself has done and could have done very little really to improve the position of the ryot. In order that the ryot might get the full benefit out of his cheap capital, he should apply his borrowed capital to really productive use and he should be enabled to sell his crop in the best market possible. So far, however, everybody's attention seems to have been riveted on the development of credit co-operation alone to the almost complete neglect of the various other forms of non-credit agricultural co-operation.

It is well-known that the chief object held in view from the beginning has been to provide reasonable credit for small agriculturists, who represent the backbone of the Indian polity, "The problem of agricultural credit," runs the Government of India Resolution of 1914, "has been looked on as more urgent than that of industrial credit, and the efforts of Government have been mainly devoted to the relief of the small agriculturist." We believe the Government acted rightly in doing so, for it has been a universal experience that the development of credit co-operation normally and naturally leads to the development of other forms of co-operation. The time has now come to devote greater attention to industrial co-operation and to the application of co-operative principles to many branches of agricultural organisation ; it is not impossible that these developments may in time surpass even rural credit institutions in importance. But these other forms of co-operation are as

yet for the most part in their early infancy and they occupy a comparatively small portion of the ground at present covered by co-operative effort in this country. Agricultural co-operation—non-credit as well as credit—is the dominant need of India and it is through agricultural co-operative developments beginning from the rural primary to the all-India wholesale—that India will gain her rightful place in the International Co-operative Commonwealth.

CHAPTER V.

PRIMARY AGRICULTURAL CREDIT CO-OPERATIVE SOCIETIES.

The primary agricultural credit co-operative society is formed in its first stage by a number of individuals, not less than ten, who, because they are unable individually to obtain easily and adequately the credit which is necessary for their small agricultural operations, combine together to get this necessary credit on reasonable conditions : to effect this each becomes liable for the debts of the society to the extent of the whole of his assets. Briefly, the members create credit by pledging the unlimited liability of each one of them for the debts of the society. On the strength of this credit they borrow money either by way of deposits from their richer co-members or local sympathisers or by way of loans from a co-operative central bank. This money they lend out to their members either on the mortgage of immoveable property or on the security of one or more sureties. They generally borrow at $7\frac{1}{2}$ per cent per annum and lend to their members at $9\frac{3}{4}$ per cent, or at $1\frac{1}{4}$ pies per rupee per month. The ultimate authority lies with the general assembly of the members, but the ordinary business is done by a "*punchayet*" elected by the general assembly. The society is usually affiliated to a co-operative central bank in which it takes one or more shares, or to a local supervising or guaranteeing union (described in a later chapter). The profits of the society depend on the margin between the rates at which it borrows and lends. Twenty-five per cent of the profits must, by law, go to the society's "reserve fund" and out of the remainder a small dividend may be paid on share capital and

a small percentage may be set apart (for charitable purposes) to a "common good fund". All the unappropriated profits go to the reserve fund. The reserve fund is usually invested as a long term deposit in the co-operative central bank to which the society is affiliated partly to ensure the stability of the society and partly to strengthen the financing banks on which, under present conditions, the whole stability of the co-operative movement in the villages depends. A moderate share capital (payable by easy instalments) is demanded from each member partly in order to provide the society with free capital and thereby increase its strength and partly with the idea of encouraging members to learn the elementary principle that co-operative credit aims at saving and not merely at borrowing. Such, in brief, is a description of a rural credit co-operative society.

"It is the local society", says Mr. Wolff, "that single brick in the bottom layer upon which the intended fabric is to rest, which makes the safety of the organisation." These primary agricultural credit societies form by far the largest part of such institutions in India—for they now number more than 33,000 in all. But this number is not large when it is remembered that these 33,000 societies finance 220 millions of agriculturists. It is however, gratifying to find that there is a continuously growing demand for such societies in all parts of India where as yet there is one agricultural credit society for every 6666 of the population engaged in agriculture. At the same time it must be admitted that, except for special reasons, an increase in the number of societies should radiate from existing centres of co-operation and should be based on a well-informed and genuine desire to imitate existing good societies. The demand for the formation of new societies must be spontaneous, drawing its strength from the realization of a common need and of a genuine understanding of co-operative principles. A thorough understand-

ing of co-operative principles must precede the organization of any new society. Forcing the pace of progress will ultimately prove more harmful than beneficial to the movement as a whole. The MacLagan Committee rightly make the Registrars primarily responsible for seeing that societies are organized on sound lines ; and, in the matter of organization the point on which they deservedly lay the greatest stress is that the members of societies should have thoroughly assimilated the main principles of co-operation *vis.*—

1. The object of rural co-operative credit is to encourage people to lay by savings, to grant loans at reasonable rates of interest, and to get rid of debt.

2. Members must know each other thoroughly and should admit nobody who is a bad character or is unacquainted with the rest.

3. All members are jointly and ultimately liable for all sums borrowed by the society either from depositors or from outside sources. They are therefore all interested in seeing that loans are granted prudently and that no member is allowed to default.

4. It is the business of the managing committee to raise capital, to sanction loans to members, to watch over their recovery and to see that accounts are properly kept.

5. All loans must be used only for the purposes for which they are advanced. They may be granted for one year for current agricultural expenses, for two or three years for the purchase of cattle or implements or for domestic expenses, and for five years for the payment of old debt or for land improvement.

6. All repayments must be made on the date fixed by the managing committee, and in cash, not by book-adjustment.

7. The duties of the general meeting of the society are to appoint a managing committee and a secretary annually,

to consider the balance-sheet and the audit notes, to ask the committee questions about its work and to pass orders on any faults that come to light.

8. All profits are carried to the reserve fund, the object of which is to improve the credit of the society as a whole and to protect members from the enforcement of unlimited liability. It is the property of all the members jointly.

9. Capital is obtained either as deposits from members or other persons in the neighbourhood, or from some Central Bank. The Central Bank is controlled by its shareholders, and if societies buy shares in it, they will have a voice in its control.

10. It should always be remembered that, though the Registrar audits and warns, the members are themselves responsible for the working of their societies. Government is not going to manage the societies for them. If they want them to succeed, they must see to things themselves.

These simple principles should be continually drummed into the heads of members till they fully grasp and assimilate them.

Indian rural credit societies are essentially based on the Raiffeisen model : but certain important modifications have been found necessary. Raiffeisen societies proper grant loans for productive purposes only. To insist on this restriction in a country like India where ceremonial expenditure is a virtual necessity is to drive the budding co-operator back into the clutches of the money-lender. Therefore, while ensuring that the capacity for credit of each member is discussed and decided by the society assembled in general meeting, the managing committee may be left with a limited discretion to grant loans for any necessary purpose whatever. Again Raiffeisen societies insist on sureties. Quite apart from the fact that we want to facilitate the transaction of business and to bring real banking conveniences to the small man the

provision of sureties by a duly elected member of a society of sureties can, as experience has proved, be dispensed with. There is also the important consideration that a signature is an accommodation which can be purchased ; and we are trying to screw up the money-lender's door. Hence here in India loans may be given "on honour" merely. Loans so granted are amongst the most common features of Indian rural finance. In Raiffeisen societies the richer members are allowed the right of being in a majority on the committees and councils of supervision. This would be fatal to the success of democratic societies in India : for caste prejudice is sometimes productive of unfair treatment of individuals.

The important features of the modified Raiffeisen society in India, therefore, are :—

- (i) small areas ;
- (ii) the enrolment, by careful mutual selection, of a certain number of members of known honesty and industry ;
- (iii) the individual and collective *unlimited* liability of these persons for the necessary working capital ;
- (iv) small entrance fees ;
- (v) low shares ;
- (vi) no dividends ;
- (vii) all profits devoted to building up a reserve fund or (eventually), with the sanction of the Registrar, to works of public utility ;
- (viii) the gratuitous service of all office-bearers.

Hints on the organization and working of rural agricultural credit co-operative societies :

Importance of sound organization :—The success of a society depends on the way in which it is started. The work of organization should, as a rule, be left to the Honorary Organizer or the local supervisor who should feel himself to some extent responsible for the well-being of all societies

formed under his advice. He should be a local man with local knowledge—"a guide, philosopher and friend"—watching over the society, keeping in touch with the members, and above all with the managing officers, giving them advice here, there and everywhere, without ever becoming dictatorial. (*Wolff*) It is he who for the first year will have to train the committee and secretary in disposing of their work in a business-like way, and, more important still, it is he who will be responsible for seeing that the Ten Points noted above have been thoroughly driven home. Organizers are generally confronted with the following preliminary difficulties—(a) the initial enthusiasm turning at the first demand for practical support into tepid indifference ; (b) the widespread fear that money once given would be for ever lost ; and (c) the complete apathy of the more educated classes. They can only be overcome by patient preaching and by the practical example of one or two public-spirited local gentlemen.

Area of a village society.—The area should not, as a rule, exceed that of a single village. "One village, one society" should be the ideal aimed at. The reasons for this are obvious. The essential part of a co-operative society with unlimited liability is that the members should have an intimate knowledge of one another and should be able to keep a constant watch over one another's behaviour ; and it is not likely that people of one village will have the necessary intimate knowledge of people living in another village. Indeed, when a village is very large it may even be necessary to have more than one society in the village. Smallness is good, but it should not be overdone. "All that is really required," says Mr. Wolff, "in the matter of smallness is that there be sufficient opportunity for supervision and trustworthy knowledge."

Size of societies.—For the same reason the size of the rural credit society should be subject to a limit. The MacLagan Committee lays stress on the importance of small

beginnings. "The members of a society," they say, "should be few to start with, and increases should be gradual and the ultimate total moderate. The main advantage claimed for large societies is economy of management, but this consideration scarcely affects rural societies. On the other hand small societies are more easily supervised and trained in co-operative principles, just as small classes are more easily taught in schools. If a society is small, it affords a better opening for local talent. It brings more men to the front, trains them to undertake responsibilities, and by carrying on a business not exceeding the capacity of the committee, prevents the domination of one man. Societies should, in our opinion, be small at the commencement, not only where the members are poor and backward, but in all cases. Where a sound beginning has once been made gradual increases should be allowed, care being taken that men of the best character are admitted first and that subsequent admission is treated as a favour to be earned by the candidate rather than as a benefit conferred by him on the society. The average size of a rural credit society in Germany is about 94 members. In India the average membership of an agricultural society is 41.* We have some hesitation in suggesting a definite numerical maximum, but as a rule we think that a society is apt to become unmanageable if its members exceed a total that might vary from 50 to 100." Many societies have lost their unity and become inefficient from the fact that they have allowed their membership to become unwieldy.

Selection of members.—In selecting the members for admission to a society the chief consideration should be the character of the men selected. Whatever be the number of members, they should be admitted for their moral qualities—

* At the end of the official year 1920-21 the average membership of an agricultural credit society in British India was 32.

honesty and sobriety. Societies are liable to fail if the members are not honest and hard-working men who can be relied on to do their duty to the society and to their fellow-members. It is not necessary that members should be propertied persons. It is no doubt desirable that some persons of property should be included in the society since it is largely to the property owned by all the members of the society that the public and the banks will look when they decide whether they will lend money to the society and if so, how much. And it is reasonable that the banks and the public should demand security of this sort, because they are not personally acquainted with the members of the society and cannot therefore know that the members are hard-working men and of good character and are therefore safe persons to whom to lend money. But this is not the case with a society in which the character and circumstances of each member are thoroughly known to all. A man should not be refused admission merely because he is poor. If it is known that he is a hard-working man who can earn his living and is a man of good character, he will under no circumstances deceive the society and his fellow-members. The essence of co-operation is that it enables the poor and the weak to obtain fair treatment and fair means of livelihood ; and if our societies cannot help the poor and the poorest, there must be something wrong about their co-operation : it is the earning power—not the possession of actual wealth—which stands security for the poor man's debts. A poor man, if he be honest and hard-working, is capable of repaying to a co-operative society any loan that he may reasonably require for his domestic or agricultural needs, Poor* men should not therefore be refused admission as members or as sureties merely because they are poor, and in India, as in every other country of the world, the poor man should be the chief object of the solicitude of co-operators.

All the members must of course be residents of the village or villages included in the area of operations. Persons possessing landed property in those villages but not residing there should not be admitted as members, since the bond of unity between the members lies in the fact that they live together and know one another intimately. There is no objection to admitting ladies to societies, provided they possess property of their own or work for their own living. Minors and all persons who are not able to contract should not be admitted. It is possible that the richer men in the village may not desire the assistance of the society in order to obtain loans ; but such men may perhaps be willing to join the society in order to strengthen the position of the society, to assist it in the management of its affairs and to give confidence to the public. Such men may also desire to deposit money with the society and in that case, no doubt, will be anxious to become members in order to take part in the management and to keep an eye on the working of the society. Of course no man can be a member of more than one society with unlimited liability ; and therefore no society should admit as a member a man already belonging to another such society.

The occupation of members should also be noted, because too great a diversity is not desirable. All the members of a village community are of course eligible for membership of a village society ; but a diversity of occupations amongst the members does not ordinarily work well owing to lack of common interest. While any attempt to effect a mixture of occupation is to be deprecated, "there is much to be gained if the societies affiliated to one Central Bank are as far as possible representative of different types of occupation."

The General body.—The ultimate responsibility for the entire management of the society rests with the general body of members ; and each member of the society is a member

of the general body. It is true that the detailed management of the society must necessarily be entrusted to a small *punchayet*, since it is impossible for a large general body to attend to every detail of the society's work. The *punchayet* is, however, only the agent of the general body and must obey all instructions issued to it by the general body. And, indeed, since every member of the society is liable in common with others for all the debts of the society, it is obviously the duty of the members and of the general body to see, as far as possible, that the business of the society is being properly managed. Each member should do his best to understand the fundamental principles of co-operation, and should, in particular, learn the "ten points of co-operation." Each member must feel that the society is his own society and that he must always be loyal to it and to its interests and that he must on no account do anything which will cause loss to it. Each member should keep a careful watch over the acts of his fellow-members and should report to the *punchayet* or to the general body the actions of any member which are likely to endanger the society. Each member should attend all the meetings of the general body and place at its disposal any knowledge he may have which will be useful to the society. Whenever the conduct of any member is detrimental to the interest of the society each member must be prepared to support the *punchayet* and the general body without fear or favour in demanding the expulsion of such a member.

The general body cannot, and ought not to delegate to the *punchayet* or to anybody else the powers specially reserved to them in the bye-laws of the society, *viz.*

- (1) the election and removal of members of the *Punchayet* ;
- (2) the consideration of the annual report due to the Registrar of Co-operative Societies ;
- (3) the consideration of the Registrar's annual audit order ;

- (4) the amendment or repeal of any existing bye-law or the enactment of a new bye-law ;
- (5) the expulsion of a member ;
- (6) the consideration of any complaint which any individual member may prefer against the Panchayet ;
- (7) the consideration of the returns that may be prescribed by the Local Government ;
- (8) the grant of certain kinds of loans to the members of the Panchayet and to their relations and dependants ;
- (9) the fixing of the maximum liability to be incurred by the Society during each year with reference to the revised property statements of its members ;
- (10) the election of delegates to the local union or central bank ; and,
- (11) the affiliation of the Society to, or its disaffiliation from, a local union or central bank.

It need hardly be emphasized how very important is the selection of members of the Panchayet, since the entire management of the details of the society's work is in their hands. They must be men of good sense and good character who can be trusted to deal honestly with the money of the society and deal fairly without fear or favour in granting loans to members. It must be remembered that if through mistakes of the Panchayet a society suffers loss, the members are themselves responsible for the loss. The main point is to ensure that the Panchayet or managing committee should work as a committee *i.e.* that it should do its work regularly and as a whole and not hand over its responsibilities to one or two active men.*

The Funds of the Society :—The funds of a rural credit

* From the late Mr. Hemingway's "*Madras Co-operative Manual*."

society are derived from entrance fees, share capital, deposits and loans from central banks. *Entrance fees* are necessary for meeting the preliminary expenses of organization and starting the work of the society. Although the main security of a village society is the unlimited liability of its members, it has good grounds for collecting *share capital* from its members. "In the first place, since the money is not obtained at any fixed rate of interest, it enables the societies to lend it at a profit and thus to increase their profits and their reserve funds and, through increasing their reserve funds, to reduce the dangers of unlimited liability. And in the second place, it is found that members feel a stronger attachment to a society in which they have some of their own money invested as share capital. This increases their feeling of responsibility and loyalty. Moreover, the aim of co-operation is not only to enable the members to borrow but also to enable them to save money; and to subscribe to the share capital of the society is a convenient way of saving. It is also desirable that members should not look only to the society to lend money to them but should also consider it their duty to help the society by advancing money to it. For all these reasons village societies demand small payments of share-capital from their members and each member is required to take at least one share of Rs. 10 usually payable in ten annual instalments."

The share system was adopted from the very beginning in the Punjab and the United Provinces and to a great extent, also in Madras and Burma; in other provinces the share and the non-share society flourish side by side—the latter predominating.

It is obvious that the amounts raised from entrance fees and share capital will not be sufficient to meet the demands of members in an ordinary village society. There are two other ways in which money can be raised, *viz.* by

deposits and by borrowings. The distinction between a deposit and a loan is that a deposit is money offered to the society on terms fixed by the society and a loan is money taken by a society on terms fixed by the creditor. We need not describe here in detail the various kinds of deposits that may be made by members and non-members in the society. One thing, however, it is necessary to emphasize, and that is that deposits should as a rule only be taken by rural societies from members and from people residing in the neighbourhood. Members should be specially encouraged to deposit in order that they may feel that they are helping the society and may also acquire the habit of making savings of their own.

Experience shows that an ordinary village society cannot expect to raise by way of local deposits sufficient money to meet the needs of its members, and it is usual for societies to borrow the remainder of their requirements from a co-operative central bank. Most societies are affiliated to one central bank or another and generally borrow from it and it alone: the loans from the central banks are either short-term or long-term loans.

Loans given by rural societies: short-term and long-term loans.—It is generally stated and with justice that the purpose of ordinary co-operative credit societies is to supply loans for short periods and on personal credit. This is in the main perfectly true; but it is also true that in many countries co-operative societies have shown a tendency to undertake long-period loans sometimes even verging on mortgages. If we examine the conditions in India we find that in the case of rural societies short-term or banking loans are granted for—

- (1) the purchase of seed and farming implements of trifling value;
- (2) the purchase of manure and fodder;

- (3) the hire of labour or of bullocks for cultivating purposes ;
- (4) hire of farming implements ;
- (5) the cost of preparation for and transfer of the crop to market ;
- (6) the payment of rent or revenue on a date between the sowing and marketing of the crop ;
- (7) irrigation charges.

On the other hand, long-term or mortgage loans are loans for—

- (1) the purchase of bullocks and agricultural implements of considerable value ;
- (2) the purchase and improvement of land ;
- (3) the payment of old debts ;
- (4) ceremonial purposes.

One of the weakest points in the financing of co-operative societies is that at present no distinction is maintained between the above kinds of short-term and long-term loans. Advances for such widely divergent purposes as cultivation expenses and redemption of debts are combined in one loan both in the case of loans granted by primary societies to their members and by central societies to primary societies. The general principle on which dates of repayment of loans should be fixed is that in every case loans should be repaid from the use to which they are put or from savings effected and that dates for repayment should be fixed with reference to the purpose for which the loan is taken, the crops grown by the borrower and his other sources of income. This principle is not always followed as more often than not advances for several purposes are taken at the same time and in one lump and one bond is executed and dates for repayment are fixed with reference to the purpose for which the largest amount is borrowed. This makes it difficult to watch repayments and to see whether repayments

are made by borrowers from the fulfilment of the purpose for which loans are taken. For instance the portion of the loan which has been taken for cultivation expenses is not repaid from the sale of the produce of cultivation as it is mixed up with loan for redemption of debts for which equal annual repayments are fixed, and the result is that next year the borrower again takes loans for cultivation expenses without repayment in full of the amount which he took the previous year. Under the existing system adequate scrutiny of the uses to which such consolidated loans are put by members of primary societies and the progress of their repayments with definite regard to the different purposes for which the loans were taken and the fulfilment of these purposes cannot be expected either from the Departmental staff or the staff of the Central Banks and certainly at present the Directorate of primary societies cannot be relied on to maintain such scrutiny. It is therefore necessary that loans for different purposes should be granted separately and that short-term loans should be kept distinct from long-term loans. Generally speaking, short-term loans are advances for the production of crops and the preparation and the marketing of the same and include loans given for payment of rent or revenue on a date between the sowing and the marketing of the crop. Long-term loans are loans for the purchase and improvement of land, payment of old debts, necessary expenditure which is of a non-recurring character. One of the chief functions of co-operative societies is the provision of short-term loans or banking loans at a cheap rate and in European countries co-operative societies as a rule do not deal with long-term loans which are dealt with by separate Land Banks or Mortgage Banks. Here it is impossible for co-operative societies to neglect long-term loans altogether as it is generally found that when a member joins a co-operative society his creditors harass him and put him to court and in many instances it has been found necessary to

begin with prior redemption of debts. In any case it does not seem desirable that co-operative societies should altogether neglect long-term loans or loans for prior redemption of debts. But the general rule which should be followed is that when a society is started it should at first concentrate its attention on short-term loans. They should not attempt long-term loans before their ability to administer their funds and to enforce punctual payments by the members has been demonstrated. Of course exceptions would have to be made in cases where the creditor is troublesome and threatening and where owing to his admission to the society a member is unable to raise long-term loans from any other source for some urgent and necessary purpose.

The question of maintaining a proper distinction between short-term and long-term loans has recently come into prominence by the publication of the Central Provinces Committee's Report. The Committee has proposed that the business of co-operative banks should be divided into two departments, namely, what may be called its banking business, that is, short-term loans, and its mortgage and money-lending business, that separate ledgers should be kept for the two kinds of loans and that societies should execute distinct documents preferably of different colours for two kinds of loans. The Committee considers that this division will enable co-operative societies to raise funds quite easily from commercial banks which must know for what purpose the loans are required and whether such advances are applied to productive loans of a short-term nature. The Committee have further proposed the keeping of separate ledgers and the execution of separate documents for these two kinds of business. Another important recommendation of the Committee is that different rates should be charged for short and long term loans and that cultivators should get finance for crops at a cheaper rate than for long-term purpose.

There cannot be any question that this division will ultimately tend to improve the finances of the co-operative movement though it is probable that many village societies and their members will at first find the system strange and possibly even unworkable. Failure to repay short-term loans on due dates will mean that the society, if there has been no failure of crop, has wilfully defaulted. Adherence to strict business will thus be more easily enforced. Further advances in such cases should be curtailed and it will be possible to take immediate steps for the reconstitution of the society. It will be easy to gauge the progress of the society and to ascertain accurately whether the indebtedness of the members is decreasing or not. Societies and Central Banks will not experience any difficulty in forecasting their requirements for short-term loans which will ordinarily be based on the expenses of cultivation of the total quantity of land held by the members. In the case of long-term loans the important point for consideration is the period which should be fixed for repayment of loans. As a rule the maximum period in Bengal is 5 years, and 5 or even 4 years are quite sufficient to enable a member to repay loans out of the savings which he makes. A borrower's anxiety not to default *kist* or his eagerness to meet his obligations punctually is a valuable asset and if through wrong fixing of *kists* he is compelled to default he gets into the habit of defaulting and ceases to be a satisfactory member of a co-operative society. A very important factor in this connection is that a member must put forth effort on his part towards repayments of debts. Mere transference of debt at a lower rate of interest will not teach a member the value of thrift and self-help and the Committee on Co-operation have rightly remarked that in relieving debt without any corresponding effort being made on the part of the debtor there is a real danger of weakening his strength of character and thereby making him a less valuable

member of a society than otherwise he was capable of becoming. A corollary to this is that loans for repayment should not ordinarily be given except at a time when a member is naturally in funds from which he can make contribution towards their repayment.

If the short-term deposits are constituted into a separate business there will be no difficulty in attracting short-term deposits and the Provincial Bank which is in an excellent position to attract floating money will be able to meet the requirements of Central Banks which cannot be met from local capital. So far as long-term investments are concerned a bank must look to its share-capital and long-term deposits and the main principle to be observed is that short-term deposits must be represented by short-term loans and long-term deposits must be represented by long-term loans.*

The following remarks of the Hon'ble the Minister for Agriculture and Co-operation (Bengal) are worthy of note in this connection :—

"The decision to separate the business of credit societies into long-term and short-term business is a very important one. One of the most fascinating problems of the money market in India is how to utilise the seasonal demand and surplus in connection with agricultural financing and similar demand and surplus in connection with the financing of commerce and trade, or to put it in a nutshell, how to link up rural finance with the finance of commerce and trade. The cultivators in Bengal need money when the money market in Calcutta is faced with huge surpluses. Then the time comes when vast sums of money go out to the *mofussil* to finance the crops and the cultivator is placed in funds and is in a position to repay his loans. I trust that the division of the

*From a Note prepared by the Bengal Co-operative Department for consideration by the Joint Conference of the Co-operative, Agricultural and Industrial Departments held in July, 1922.

business of the societies into long-term and short-term business will ultimately enable the movement, through its provincial bank, to produce an equilibrium between the demands and surpluses of agricultural Bengal with the demands and surpluses of industrial and commercial Bengal."

The Reserve Fund of Primary Credit Societies.—There is no subject on which such diametrically opposed views have been expressed in India as that of the investment of the "reserve funds" of primary societies. The term is usually applied to all the surplus profits which remain each year after the payment of expenses of management, etc. The MacLagan Committee has recommended that so long as proper provision is made to meet the demands of non-member depositors, if any, a primary society should be permitted to utilise the whole of its surplus assets in its business. This dictum has been so universally condemned that it is hardly necessary to discuss it. The idea that "the object of a society should be to accumulate a reserve fund of this character until it obtains a capital of its own sufficient to meet all its needs and thus become independent of outside assistance" means not co-operation but individualism. The whole principle of co-operation is that it is for the advantage of the individual to combine with others and act as a society, that it is for the advantage of the societies to combine together to form a central bank, and that it is advantageous for the central banks to combine together to form a provincial bank. All effort which has for its aim the promotion of independence tends to destroy co-operation, and in nothing is the truth of the adage that unity is strength more clearly illustrated than in co-operative finance. The strengthening of the movement requires, not the independence of any description of units, but their inter-dependence, their co-ordination of action. The advantage or the propriety of a course of action will appear in quite a different light according as the goal aimed

at is individualistic independence or inter-dependent co-operation, and, among other questions, the proper utilization of reserve fund is greatly affected by the particular theory in this respect that happens to be in favour.

The main object of a reserve fund is to provide funds to cover losses that may arise from agricultural calamities,—something to fall back upon in an emergency that does not ordinarily arise in the conduct of business. The first and obvious means of securing sufficient funds to enable societies to meet demands upon them is to combine together to form a central bank, and therefore the first requirement is for a society to invest its accumulated profits in shares in the central bank, and, when the central bank is formed, the reserve funds of societies should be separately invested in it. If the reserve fund is to fulfil its proper function, it must necessarily be invested outside the society, so that it may be available when it is wanted. If it is allowed to be kept in the society itself and used as working capital, it will be locked up in the loans of the society and will not be readily available.

The form of liability to be chosen.—"With a few isolated exceptions all the primary agricultural credit societies in India are societies with unlimited liability. The law does not specify definitely the character of the liability, nor have we any data before us to show the interpretation put upon it by the Courts. No difficulties have hitherto arisen in connection with the enforcement of this liability, but should it hereafter be found necessary to define it more clearly we should suggest that it should take the form of 'contributory unlimited liability' that is to say that, where there is a deficit in the engagements of a society to its creditors, this deficit should, after the full payment of shares (if any,) be recoverable by a series of per capita levies upon the members up to the full extent of their property, direct proceedings by a creditor

against individual members being forbidden. Hitherto it has been generally understood that the unlimited liability of a society is intended to imply the liability of the whole of the property of the members of a society for the debts due by the society. Some of the less well-informed members are under the impression that it entails the liability of the whole of the property of each member of a society for the debts due by the other members to the society, but the practical difference between the two aspects of the liability is perhaps less than might at first sight appear, and in any case the members of societies when they think of the liability at all appear ordinarily to think of it merely as unlimited and to accept it willingly as such. We have not found that the adoption of this form of liability, where the safeguards against loss are properly understood, has any effect in keeping out the richer peasants, nor have we met with any demand for the substitution of a limited responsibility. The unlimited liability is not understood to involve any obligation against the alienation of property by members, and although the material basis for the liability is thus rendered somewhat fluctuating and indefinite, we do not consider that an arrangement which would in effect impose a definite charge on all their existing property would be either practicable or desirable. The unlimited form of liability, as it now stands has, contrary to the anticipations of many, been unreservedly accepted by the people, and we have evidence before us to show that it constitutes an important factor in the confidence reposed on societies both by the central institutions inside the movement, and by the Joint-Stock Banks outside it. We see every reason therefore for adhering to the principle that agricultural credit societies should be societies of unlimited liability, whether they are with or without shares. In either case the ultimate liability of all the members is in the last resort unlimited, and the advantage of share capital is that, in case of liquidation the share capital is sufficient to

meet any deficit that may be found to exist, there is no need of any further levy to meet the liabilities of the society." (*MacLagan Committee's Report.*)

Registration.—For purposes of registration an application has to be made to the Registrar of Co-operative Societies of the Province. This application must be duly signed by at least ten persons above the age of 18 years who (a) reside in the same town or village or in the same group of villages; or (b) save where the Registrar otherwise directs, are members of the same tribe, clan, caste or occupation. This application so duly signed is to be accompanied by a copy of the proposed by-laws of the society; it is usually found convenient to adopt, with slight modification to suit local conditions, the model by-laws issued from the Registrar's office. If, then, the Registrar is satisfied that a society has complied with the provisions of Act II of 1912 and the rules made thereunder and that its proposed by-laws are not contrary to the Act or to the rules he may, if he thinks fit, register the society and its by-laws. A certificate of registration signed by the Registrar is conclusive evidence that the society therein mentioned is duly registered, unless it can be proved that the registration of the society has been cancelled.

These are the main general principles that should underlie every new organization. While the movement was still in its infancy, societies were registered haphazard and experiments were made wherever an opening seemed to occur. A stage has now been reached when this policy must be abandoned. It is no longer permissible to press societies on a hesitating peasantry. As the working of the existing societies is improved, they should be left to recommend themselves to their neighbours. New societies should come into existence in response to a genuinely spontaneous local demand, arising from a desire to share the benefits enjoyed by members in neighbouring societies.

Obstacles in the way of Rural Co-operation in India.—In our enthusiasm for the co-operative movement we should not be blind to its many weak spots. A perusal of the Reports of the Registrars of Co-operative Societies will show that they, at any rate, are fully alive to them and a few quotations from some of them will show that they are never weary of reiterating them year by year.

The illiteracy of the people—The illiteracy of the people still remains the greatest obstacle in the way of the formation and management of societies. "In many villages where there is a demand for a society, it has been found impossible to get a suitable secretary. The appointment of the *Talathi* or *Kalkarni* to do the work is never desirable, as this involves the collection of the society's dues and of the Land Revenue by the same agency and the people come to regard the society as a Government Department. The plan of appointing one secretary for a group of societies has not been conspicuously successful. Group Secretaries are often reluctant to visit societies outside the village where they reside. Committee members are harassed by being summoned to the Secretary's house, and accounts fall into arrears. Moreover, when the Secretary is the only literate man in a society, there is always a danger that he will become the master instead of the servant." (Bombay Report, 1914-15). The Registrar of Bihar and Orissa similarly points out that "the determining factor is the illiteracy and ignorance of the ryots. In most societies those who can read and write can be counted on the fingers of one hand and usually it is very difficult to find one man who is really competent to keep the books. * * * The present situation is that the average member either cannot, because of his illiteracy, or else he thinks it none of his business to, control the Committee, and at any rate dares not offend the prominent men of the community in whose hands the bestowal and recovery of loans appear to lie."

The gradual spread of education is the only remedy for this state of things.

The selfishness of the members of the Managing Committees.—"The selfishness of the members of the Managing Committees and the apathy of the general body of members which in fact tends to promote the self-seeking propensities of the managing committee are also dangers to which all the co-operative societies are peculiarly liable. The selfishness of the committee of management is observable in the way in which they try to appropriate the bulk of the loans. To avoid detection *benami* loans are indulged in. To root out this evil we must depend upon the growth of a more corporate feeling amongst the members and this growth can only be encouraged by an insistence on the knowledge of co-operative principles on the part of the general body of the members." (Bengal Report, 1914-15).

Favouritism in advancing loans and unpunctuality in repayment.—"Carelessness or favouritism in advancing loans, or slackness in pressing for recovery, on the part of the Committee, unpunctuality in repayment or even wilful default on the part of members, are things that have to be guarded against, day by day, even in the best of societies. These are platitudes, but they need be impressed upon many excellent people who know that co-operation is in the air, and go about vaguely preaching its 'blessings' without a word about its difficulties. We still have to fight the notion 'that co-operation is a Government Charity. A member of the Managing Committee of a rural society in the Deccan informed me that 'a society means that our Rao Saheb distributes Government money to poor men.' Abysmal ignorance of this kind is hardly typical now. But far too many societies seem to expect to get a loan from the Central Bank to redeem all their members' old debts as soon as they are registered. I have steadily refused to sanction loans for this purpose to

societies that have not proved for a year or two their capacity to manage loans for ordinary agricultural purposes. The first lesson that members have to learn is the necessity of punctual repayment of loans. The Sawkar neither expects nor desires punctuality." (Bombay Report, 1914-15.)

"The *panches*, as a rule, have not been slow to take advantage of the situation, and a common feature is the accumulation of a large proportion of the working capital in the hands of a few men, even beyond their real assets. Then the *panches* either cannot or will not pay up their large *kists* and so either lose authority to collect or else purposely allow the rest to fall into arrears so as to make it appear that owing to bad seasons no one can afford to pay. In this way a number of societies have come and are coming to stagnation and ruin. To this result injudicious management or lack of supervision on the part of central banks and organizers only too often contributes. In the old days societies were frequently started without proper local inquiry, the members were not properly instructed in the principles of co-operation and either too many men were taken in at first or else the membership was allowed to increase so rapidly that, even if the original applicants understood anything, they were swamped by a number of loan-grabbers who never learnt anything about the society at all. The societies have either been left too much alone or inspected by clerks whose one idea was to sign the books and get away, or else to make money. General meetings were either not held or else rushed through in a perfunctory manner with a bare quorum and without the despatch of the business prescribed in the bye-laws. The *panches* themselves seldom read their bye-laws or even knew of their existence. The financing of societies was also one of the causes of failure. Money was freely given out to the *panches*, who often kept in their own hands loans destined for others and even when societies failed to

pay their dues without proper excuse, fresh loans were granted again, and perhaps again, under the idea that the societies were dependent on the central bank or that if they did not receive advances they would have recourse to *mahajans*, and this was accounted a disaster. Often, too, the members paid their *kists* by borrowing temporarily at high rates from *mahajans*, sometimes even from the *sahu* treasurer of the central bank through whom all payments were made and received. Another common trick was to show all loans due from members as collected, whereas only sufficient money was raised to pay the central bank's demand and on a new advance being received, the amount actually given to each member was increased in the books so as to square the accounts." (Bihar and Orissa Report, 1914-15).

How to remedy these defects.—To remove these defects the following means have been, more or less, generally, taken in the major provinces—

- (1) *Careful organization* : No society is now registered until a local enquiry has been made by a responsible person, usually a director or the central bank manager, who has to certify that the statement of the assets and liabilities of the members is correct and that all the applicants understand the "Ten Main Points of Co-operation". Good organization is half the battle won, and a society properly started and thereafter inspected rarely gives trouble, provided it is not allowed to expand too fast.
- (2) *Inspection and Instruction* : The improvement of the inspecting staff and the appointment of good managers, who will be more reliable and wield greater authority, have already begun to bear good fruit. For the better inculcation of co-operative knowledge the "Ten Main Points" have

been drawn up, translated in prose and in verse, and circulated amongst all co-operators.

- (3) *General Meetings*: Due importance should be attached to the annual general meeting, and it should be pointed out that, if it is to have any value in most societies, the presence of a director, supervisor or some other responsible person is essential. Without such help, the illiterate members cannot control the *panchayat* and the meeting may well be a farce. The audit note and the annual accounts should be explained and the limit to the amount which each member may borrow carefully examined. A general limit for all members such as is commonly laid down is quite useless.
- (4) *Business-like financing*: Central Banks must remove financing altogether from the sentimental plane and put it on a strictly business footing. Societies which are well-managed and whose members pay their *kists* and take proper interest should be given loans, while bad societies should be refused money or their advances much restricted. If societies whose members do not pay and will not learn their bye-laws and the "Ten Main Points" get advances just like the rest, it has the worst effect on the whole area.
- (5) *Liquidation, Expulsion etc.*: Those societies which, on account of their bad ways are refused loans and still do not improve must be recommended for dissolution. Hitherto the tendency has been to avoid extreme measures as being harsh and likely to give the movement a bad name. Experience shows this to be wrong. The maintenance and financing of bad societies have bad

effects on the rest, waste the time of the directors and the staff and do more harm in the eyes of the public than closing them. The expulsion of one or two bad members often has the desired result, but it is not always easy.

The criteria of success.—Briefly speaking, the criteria of success of rural co-operative credit societies may be enumerated as follow—

1. Knowledge by Chairman and Secretary of all bye-laws.
 2. Knowledge by all members of the ten essential principles.
 3. Good management :
 - Careful admission of members.
 - Careful issue of loans.
 - Punctual collection of dues.
 - Good accounts.
 4. Increase of assets—diminution of debts.
 5. Local initiation.
 6. Ability to get local funds.
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CHAPTER VI.

EFFECTS OF THE RURAL CREDIT CO-OPERATIVE MOVEMENT IN INDIA.

The rural credit co-operative societies in India are now numbered by tens of thousands ; with their aid laborers have become owners ; hopeless debt has been banished and the *Mahajan* driven out ; agriculture and industry have been developed, and the villagers in the poorest tracts have become prosperous ; the illiterate man has turned towards education and the drunkard has been reclaimed ; the middle-man has been eliminated, the raiyat is getting better value for his produce, and paying his rent with ease ; village life has been stimulated by associated action and by the business education of the bank ; punctuality, thrift and mutual confidence are being taught ; litigation has decreased and morality has improved ; activity has taken the place of stagnation and routine ; associated action has replaced mutual distrust.

These effects of the credit co-operative movement upon our rural folk may be classified under six heads—moral, educative, sanitary, social, economic, and administrative.

The Moral Effects :—The societies have exerted a very powerful influence on the moral and social welfare of their members. Drinking, gambling, and other forms of loose morals and social indiscipline have necessarily to be sternly discouraged, where a community of men stand jointly responsible for the debts of one another. Provincial reports abound in instances where a society has excluded or punished members for such delinquencies.

The moral effects of the movement are evident when we consider that many of these societies settle village disputes

by reference to the *panchayet* without going up to courts. In the words of Sir Edward Maclagan—"The effect of co-operation on litigation is in some places very marked and we hear in one district of a decrease during the year of 1,100 Civil Cases which the judicial authorities ascribe in the main to co-operative credit societies." In one of the reports of the Registrar of Co-operative Societies, Bengal, we read that arbitration of disputes by societies is now a common feature in several areas and that sometimes curious punishments are meted out to members who are found guilty of any offence. In one society in the Manipur area the minute book shows that a member was to be beaten with shoes for trespassing on another member's land and the order was duly carried out and the member meekly submitted to the punishment. Many societies in the United Provinces have instituted small funds for the benefit of indigent residents of the village. Interesting cases are also common where a society has taken charge of the land and effects of a deceased member and after a careful administration, which made possible an early repayment of all liabilities, have returned the fields to the widow or children of the deceased. We also read in one of the annual reports of the Brahmanberia Central Bank that during a period of scarcity in that district the members of some societies had made a rule that the adult members would fast for the whole day once a week and the small savings they would be able to make thereby would be spent towards helping the needy neighbours in distress. Finally we have the following remarkable testimony of Mr. M. L. Darling regarding the moral effects of co-operation in the Punjab—"where co-operation rules, litigation and extravagance, drunkenness and gambling are all at a discount. There are now nearly 100 Arbitration Societies, the members of which bind themselves to refer all disputes to their society instead of to the law court, where time and money are wasted almost beyond relief, and where too, the

perjurer is as common as the sand-fly. In one village a member who made a regular income out of perjury was not only expelled, but excommunicated. A day or two later saw him abjuring his evil ways by public oath in the village mosque. Round Lahore a number of societies prohibit, under penalty of fine, all extravagant expenditure on marriages and funerals. Dancing girls are no longer allowed at the former, and costly entertainments are banned at the latter. Members too, who get drunk are fined, and in one case a gambling President was expelled, till he swore repentance and a change of habit." (*Irish Economist*, May, 1922.) The following extract from the Punjab Registrar's report for the year ending 31st July, 1920 further shows how co-operative credit societies have been very largely instrumental in broadening the moral outlook of the members and in giving them a new interest in life—"In the Murree Tahsil co-operators of the Dhund tribe have organized an association to discourage extravagance and litigation and abolish objectionable features of certain ceremonies. Several districts can show similar movements. In a number of cases societies have introduced a special by-law providing for fine on members who employ dancing girls at marriages. The use of fireworks is discouraged. A moharrir of the High Court of Judicature at Lahore, who issued invitations to a ceremony on gilt-lettered cards was fined by his society for extravagances. Several cases are mentioned in which the drinking of spirit and illicit distillation have been abandoned. In other cases members have been stirred to greater activity as cultivators. A man sunk in debt loses hope, his interest in his work lapses and his energy declines. A society brings a prospect of release and cases have occurred in Muzaffargarh where cultivators have broken up barren lands with new vigour. A curious case comes from Gurgaon where the committee considered that a member spent too much time in the mosque and so put his

maximum credit at the low figure of Rs. 30, until he bestirred himself over his fields. He took the hint. In the Jhelum District the land-owning members of a society held a meeting and decided to give more land to those of their tenants who were co-operators. Expulsion for dishonesty sometimes has a salutary effect. In another case a society expelled a man on a charge of seduction. The Court acquitted him, but the society did not. The extortion of petty officials is actually being withstood. Gambling is being discouraged ; in one village a society was not allowed to be started until the prospective members gave a written agreement that gamblers would not be admitted. This distinction smote the non-members who in a few months gave up gambling and applied for membership. In an Ambala village carpenters began to give trouble ; the members of the society in general meeting resolved to learn the art themselves, and it is reported that most of them can now meet their own requirements. In Hissar a society ejected from the village eleven professional beggars, when the economic view was explained. A Gurgaon society fines its members for absence from the monthly general meetings and contributes the receipts to the mosque fund. Several Inspectors report cases of people giving up a criminal career in order to qualify themselves for membership. Generally it may be said that the movement is having a distinct effect in instilling into the minds of the people the ideas of hope and progress. The members are becoming more businesslike and their apathy towards education is giving way to something approaching active interest."

The Educative Effects.—In the words of Mr. Wolff the credit co-operative movement "has already quickened the intelligence of the raiyats and awakened their power of thought, understanding of business and sense of responsibility. They have learnt something and they are showing themselves anxious to learn more. They want to master rudimentary

letters, to fit themselves for keeping accounts and checking them." Again, Sir Edward Maclagan says—"We have instances brought to our notice of the effect of co-operation in improving the education and morality of the communities which have adopted it, in reducing unnecessary expenses and in supplying medical relief." As a matter of fact we find that in a Midnapore village one of the most direct effects of the society has been the institution of a Middle English School to the upkeep of which the society is now contributing four rupees per month from its profits, and that in Khulna one of the effects of these societies has been a growing demand for night and vernacular schools. The Punjab Registrar reports that a society has given a donation of Rs. 500 towards the cost of constructing a primary school building in the village. In Jullunder the Hindu Bank, Nakodar, pays every year $7\frac{1}{2}$ per cent of its profits (amounting in one year to Rs. 697) to the local Anglo-Vernacular Middle School; two other societies contributed Rs. 35 to local schools. Four Unions in Shakargarh Tahshil have offered to assist the District Board to start a High School in that out of the way place. Clerkabad Society (Lahore) has contributed Rs. 325 to the education and support of poor widows and orphans. In the Punjab, too, a large number of night schools—some of them registered as "co-operative night school societies"—have been opened, and men of all ages, even grey-beards, may be found learning to read and write in the same dim-lit schoolroom. "In one village" says Mr. M. L. Darling of the Punjab, "shop-keepers, carpenters, blacksmiths, water-carriers, potters, weavers, and even goldsmiths are to be seen sitting side by side with the peasant proprietor."

Effects on rural sanitation.—Sometime ago the Government of Madras approved a scheme for utilizing the services of rural co-operative societies for the improvement of sanitation within the area of their operations and decided to

try the experiment with some twenty societies in large non-union villages. Grants amounting to about Rs. 18,000 were made to these societies which were allowed to spend the amount without observing any of the formalities usually required by the local fund code and other standing orders. The presidents of the taluk boards concerned were requested to inspect the works in person and report to Government, through the Registrar of Co-operative Societies, whether the money had been properly spent and how far it had been supplemented by local contributions.

In a recently published Government Order, the Government observe with pleasure that with one exception all the societies, or, under their influence, all local residents, have, on the whole, discharged the duty imposed on them satisfactorily. The grants made by Government were supplemented by local contributions in the shape of money in four cases and in the shape of free labour in two others. The experiment having so far met with success, the Government of Madras have permitted presidents of district boards to use these agencies for carrying out further rural sanitation work where opportunities offer, subject only to inspection of the completed works by the president of the taluk boards concerned.

We welcome the new departure and are glad that the scheme has been successful. If the scheme is slowly and cautiously advanced without interfering with the ordinary work of credit societies, it will be productive of much good to the community. We wish similar experiments were tried in other provinces of India. In the other provinces the societies have, of themselves, undertaken and carried out sanitary reforms within their areas. Thus in several districts of the United Provinces quinine and other simple remedies have been stocked and distributed to the villagers. In Benares and Jaunpur, the societies have done very useful sanitary work in the filling of pits, repair of drinking wells, improvement of

village drainage ; all this was done with the help of the grants made by the District Boards, largely supplemented by contributions from the societies themselves.

The Social Effects.—Its social effects are no less remarkable. The Indian co-operative credit societies give loans to members not only for paying off old oppressive debts and for such productive objects as the purchase of fertilisers, seed and livestock, the building of houses, the purchase of land etc., but also for marriages, pilgrimages and funerals. Here in India no distinction is made between productive and non-productive expenditure, the distinction observed being that between necessary and unnecessary expenditure. Loans for marriages, *sradh*s and even pilgrimages to holy places are also therefore allowed ; because, if loans for such purposes were refused the members would be compelled to raise money from *mahajans* at the usual exorbitant rates and they would be left without any wholesome check on their expenditure.

In many cases the *punchayets* have cut down the amount applied for to meet such expenses. It is usually the dread of village opinion that compels a villager to spend large sums of money on social ceremonies. It is the same village opinion which now compels a man to restrict his expenditure on these objects and the good people of the villages, where there are societies, are no longer anxious to have feasts at the expense of an unfortunate man who has lost his father or who has to marry his son or his daughter, for (on account of unlimited liability) anything that affects the man's solvency might also affect their own pockets. Again, in his Resolution on the working of Co-operative Societies in the United Provinces, during 1911-12, Sir James (now Lord) Meston thus sums up in weighty terms some important aspects of the social results of the Credit Co-operative Movement :—"The movement has undoubtedly had an appreciable effect in creating solidarity of

feeling and a neighbourly spirit, and in providing a nucleus of a natural authority to which village disputes can be referred and which may be invoked to justify thrift on occasions where custom demands extravagance. It is in effect calling into existence an articulate public opinion and giving it concrete embodiment in the *punchayet*. Further, the group system of organization is leading to co-operation between village and village. The Registrar, with pardonable enthusiasm, looks upon the movement as heralding a new corporate village life and even the birth of a rustic civilization and culture”.

The Economic Effects.—The economic effects of the movement are very far-reaching indeed, for it has tempted hoarded money out of its concealment and has attracted the funds of the general public. The successful working of credit societies has earned the confidence of the villagers who now do not hesitate to deposit their hoarded savings in them. These societies are specially appreciated by widows and old men as convenient places for the custody of their hard-earned savings. We give here some remarkable instances from the very interesting reports on the working of Co-operative Credit Societies in Bengal. In Midnapore the widow of a *mahajan* who did not help the society with any deposits, although several times approached by the members, deposited Rs. 800 on behalf of her minor sons two days after the death of her husband. In another case a man who was not suspected of having any money at all brought Rs. 100 to deposit in his society after there was a theft in the village ! In Khulna a palanquin-bearer, to the agreeable surprise of all, brought in Rs. 1,200 to deposit in the Khulna Union—a case of hoarded wealth indeed ! Enquiries elicited the information that he was known to be a sober and steady man and that the villagers had always suspected that he had some money which he had Silas-like buried underneath the earth.

The Land Revenue Administration Report of the Bombay Presidency for the year 1914-15, bears striking testimony to an important aspect of the economic effects of the movement in the following words ;—"The amount advanced under the Takavi Acts in the Presidency proper was little more than half of that of the previous year. This is largely due to the satisfactory agricultural situation ; but there are also signs that the spread of the co-operative movement is tending to make the cultivator less dependent upon Government for financial support than was formerly the case."

Mr. Wolff thus summarises the economic effects of the Credit Co-operative Movement in India—"Co-operative Credit has brought money to many a spot thirsting for it, generally in the right way ; in many cases has it replaced hopeless insolvency by solvency already attained or else in prospect ; there are, at any rate, hundreds, probably thousands, who have, by the aid of this helpful ally, liberated themselves from the usurer's yoke ; there are villages in which the *mahajan* and the *sowcar* now find their occupation gone. The institution has accordingly inspired new hope into the minds of the debt-burdened ryots and opened to them a way to higher existence."

Some other important aspects of the economic effects of this movement may be noticed here. One is thus described by Sir Edward Maclagan—"If we take the question of saving in interest alone, the benefit done has been great, and is increasing. We may fairly assume that the saving on each loan given out by societies during the year to agriculturists has amounted to at least ten per cent, and the result is that at a low computation we save the agriculturists of India from an absolutely unnecessary burden of at least ten lakhs of rupees for every crore of rupees lent out by Co-operative Societies : and the sums so lent out have already begun to be counted in crores."

Credit Co-operation is also bound to play an important part, if not directly, at least indirectly, in the development of Indian commerce and industries. In the first place, by removing the heavy load of indebtedness it will increase the purchasing power of the ryots and create a large demand for industries. Secondly, by reducing the general rate of interest and setting free a large portion of capital which is now employed in agriculture and which is now earning a rate of interest which industrial concerns can hardly afford to pay, it will promote and encourage investment of Indian capital in industries.

The possible administrative effects.—In his opening speech at the fifth Bengal Provincial Co-operative Conference of 1913 Lord Carmichael said—"In the administration of Bengal the solution of great problems which most nearly affect the people of the country (whether they concern the water-supply or sanitation or fighting malaria) depends upon local effort, and in this we are handicapped by the want of village institutions. But I hope I am right in foreseeing that in the future these societies will take the place of the old village institutions which once existed in India, and I am sure I am right in thinking that, if they do so, there will be a great change for the better in the administration of the country." So also, Mr. P. C. Lyon, speaking at the same Conference, said—"It is recognised now on all sides that a successful village society means a far step forward in education and local self-government,—in fact, the resuscitation of village government in a most attractive form." And in his presidential address at the sixth Bengal Provincial Co-operative Conference (1914) he (Mr. Lyon) predicted that the Co-operative Credit Societies were destined to form the best and soundest basis for the constituencies of the future. "I look forward to the time," he said, "when the Co-operative

Credit Society of each village, bringing the people together for all matters connected with the weal of the village, will be linked up with the system of village and circle government and will be utilized as the only efficient electoral unit. Each such unit will vote for the representative who will look after the interests of the village in a larger council composed of an aggregate of unions, and he will, in his turn, help to elect the members of still higher councils. In every stage of such development you will find the Government your firm ally, as it is in this way alone, I believe that we shall obtain truly popular constituencies, able, by the influence they exercise on public affairs, to contribute valuable assistance towards the good government of Bengal." As a matter of fact the Co-operative Credit Societies played a great part in the first elections to the reformed Legislative Councils ; they had already initiated the rural people into the mysteries of the Ballot System so that they took an intelligent and active part in returning members by going to the polling stations and recording their votes. They have thus proved to be a great school of self-government and political education.

Thus we see the Co-operative Credit Society is the guardian of the village—it is its own bank, its own court, its own school and its own municipality : it lends money, it settles disputes by arbitration, it offers educational facilities, it effects sanitary improvements—it has grown into a sort of a village democracy : truly has it been said that "one can see in these institutions the beginnings of the old village communities whose disappearance as a factor in the political organization of the country every one deplores." Here even the humblest peasant may take his diploma, learning to look to himself instead of always to Government, to help his neighbours as he would be helped by them, to spend wisely and repay faithfully, to eschew extravagance and, above all, to deal straight.

Co-operative Credit and Agricultural Indebtedness.—A discussion of the effects of the credit co-operative movement will be incomplete if we do not consider how far the agency of credit co-operation has, during the last decade, affected the indebtedness of the agricultural people. Sometime ago the Registrar of Co-operative Societies, Mysore, made certain investigations to get a rough idea as to how far rural indebtedness is being relieved through co-operative societies. Two conclusions of great importance emerged from his enquiries viz. (1) that indebtedness has remained practically stationary, and (2) that the members of co-operative societies are indebted to a greater extent to sowcars than to the societies. "The reason why the members of societies are still indebted to sowcars," says the Mysore Registrar, "is probably that the latter give a larger time for repayment and are more accommodating than a society can be till they finally absorb the debtors." He ascribes this state of affairs mainly to ignorance and rightly points out that education is the primary remedy.

Mr. M. C. Darling of the Punjab Co-operative Department has been for some years devoting his attention to the investigation of statistics relating to agricultural indebtedness. In an article on "Prosperity and Debt in the Punjab" published in the *Indian Journal of Economics* he shows that in fifteen years (1903-1917) the net increase in the mortgage debt of the Punjab exceeded ten crores of rupees. It is true, he finds that the area redeemed from debt in that period exceeds the new area mortgaged; but he chooses to observe—"Doubtless acreage is an important consideration, but after all the prime object of a mortgage is money. If more and more money is raised by mortgage, the fact that at the same time the area under mortgage is decreasing, does not justify unmixed congratulation." He calculates, further, that "one rupee of mortgage debt means at least another

rupee of unsecured debt as well." From this he concludes that in ten years the total rural indebtedness in that province has grown by over ten millions sterling. A couple of years earlier Mr. Darling had furnished the Indian public with another similar survey. It showed that among landed proprietors the average indebtedness per individual was Rs. 500 nearly, while only 19 per cent of the proprietors were free from debt, and that the total indebtedness of the peasantry in the Punjab was between forty and fifty crores of rupees. At the same time he conducted a parallel inquiry as to the effect of co-operative credit upon indebtedness in that province. It was found that as against a provincial average of 19 per cent, 28 per cent of the members of co-operative societies were free from debt and the indebtedness of the remainder had been reduced by one-half. The vast proportion of debt redeemed in the case of co-operators taken together with the accompanying growth of assets—a very substantial increase indeed to the tune of Rs. 237 per member—is an astonishing feat performed by co-operation in about fifteen years.

Mr. Darling's latest study of the subject is particularly valuable as analysing the complex nature of the problem of the origin of rural indebtedness. The great expansion of credit and the rise of prices stand out prominently in his list of the causes—purely monetary and financial factors both of them, though they are assisted by other causes like fragmentation of holdings and abuse of credit. Statistics of the growth of agricultural indebtedness have to be very carefully interpreted ; and unless the proper canons of interpretation are employed the figures are apt to raise unduly pessimistic and gloomy feelings. One important reservation Mr. Darling himself makes : "It would seem that after all prosperity had its shadow and that perhaps in India prosperity and debt go hand in hand." The point might have been emphasized a little more since agricultural prosperity everywhere implies a growth

of indebtedness. It implies a larger employment of borrowed capital in agricultural operations and we must welcome the increase of productively employed borrowings. The statistics of agricultural indebtedness, in a word, are of no value if they fail to discriminate between productive and unproductive debt. In the third place we must weigh the growth of assets against the rise of indebtedness. Lastly, at least a very large proportion of debt owing to co-operative societies must be assumed to be of a productive nature. To cite Mr. Darling once more, as a servant credit can turn sand into gold but as a master it will turn gold into sand. Restriction, therefore, is necessary and co-operative credit is the obvious way of applying it, for members of a co-operative society cannot borrow at will. Moreover through their society they learn the all-important lessons of punctual repayment, honest dealing and thrift. Co-operation is indeed the very negation of indebtedness.

With the object of showing the dissolving power of co-operation on indebtedness we proceed to supplement the information given by Mr. Darling by some important figures published by Mr. Donovan, lately Registrar of Co-operative Societies, Bengal. His study is similar to the earlier one of Mr. Darling but has certain additional valuable features. The statistical process of "sampling" was employed and the indebtedness of some 4000 members of Co-operative Credit Societies was tested. The societies to which these members belonged were "typical" societies not taken from among the best of the old societies. The work was thoroughly done—the assets being tabulated as well as the debts. Further, among the debts care was taken to separate carefully the productive from unproductive debts while both debts were again classified as those due to co-operative societies or to outsiders. We admit that it is almost impossible to study the debts of a whole province in such detail without having

recourse to the process of "sampling" It was no use finding out the debts without ascertaining the assets or lumping together productive and unproductive debts. The results fully illustrated the powers of co-operation. Productive borrowings from outsiders had fallen far more—by 14 per cent. Productive borrowings from societies had grown by 12 per cent and borrowings for unproductive purposes by 72 per cent. Surely both in the case of the Punjab and of Bengal co-operation has done substantial work in reducing indebtedness : to get a correct estimate of this aspect of co-operation every provincial department of co-operation should hold periodical enquiries on uniform lines.

CHAPTER VII.

NON-CO-OPERATIVE AGRICULTURAL BANKS

VS.

CO-OPERATIVE CREDIT INSTITUTIONS.

In an article in the first number of the *Indian Journal of Economics* the Hon'ble Mr. (now Sir) D. E. Wacha advocates the establishment of agricultural banks with a certain amount of state assistance, and asserts that they alone can solve the problem of agricultural indebtedness. The writer's conviction is that no possible "number of credit co-operative societies of the character now instituted.....would be of any avail, if it really be our aim and object once for all, to relieve agricultural indebtedness." As a signal proof of the ability of banks to wipe out agricultural indebtedness the history of the Agricultural Bank of Egypt is narrated and is mainly relied on. Pronouncements coming from such a veteran publicist as Sir Dinshaw deserve to be respectfully and soberly considered and to be widely discussed.

Sir Dinshaw observes in one place that it is not the object of his paper to criticise the merits and demerits, whatever they may be, of the "new-fangled" co-operative societies. But evidently he holds them in small respect and prophesies boldly that "their constitution, the method and manner of their working and the new control and grip which the Government are going to have over them, all these must eventually toll their death-knell". According to him the same fate that has befallen the *takavi* advances and the efforts to relieve the Deccan agriculturist is bound to overtake the agricultural credit societies.

In order to make up one's mind about Sir Dinshaw's proposal one has to consider whether the history of agricul-

tural banks shows that they alone can so materially reduce agricultural indebtedness as to make co-operative banks superfluous. One must inquire further into the measure of success achieved by the Egyptian Bank and into the degree of resemblance between the Egyptian project and Sir Dinshaw's idea. It may also be asked whether co-operative unions and central banks may not perform the same work as the proposed agricultural banks. Any difficulties in the way of starting and working these banks may be then examined. Lastly one should consider whether co-operation brings with it other economic, moral and political benefits which it would be unreasonable to expect from mere "agricultural banks."

A preliminary objection might be raised to the ideal put forward which is said to be "once and for all to relieve agricultural indebtedness." There is a rhythm pervading all economic affairs and no class can keep itself permanently out of debt—least of all the agricultural class with its liability to suffer from bad seasons and famines. The ideal set up is as practicable as the socialist ideal of equalization of property, the truth being that the moment after fortunes have been arbitrarily equalized, the process tending towards inequality of property will start again. To say that all agricultural debts can be removed is only a little less fallacious than to say that all debts could be abolished. The debtors, like the poor, are a class which we shall always have with us.

Let us first study the lessons to be derived from the history of "agricultural banks." The case of Egypt, which Sir Dinshaw has emphasized, will be dealt with later on; but the history of agricultural banks is a long and instructive one, and not in any way confined to the small and late Egyptian experiment. A great many countries in the world have possessed not only individual agricultural banks but whole systems of them, but nowhere have they either abolished all agricultural indebtedness or made co-operative credit institutions

superfluous. A few examples will illustrate this statement. Germany possesses numerous agricultural banks. There are the *Landschaften*, *i. e.*, societies for lending money on farm mortgages, which have earned high praise. Mr. Herrick (late Governor of Ohio and Ambassador to France) says of them : "The Prussian *Landschafts* are generally recognized as nearly perfect with reference to organization and administration, while it is also believed that if their business methods were modernized and made less cumbersome, they would be the best institutions in Europe for according long-time credit on large or small farms."* Besides the *Landschafts* there is a long array of other agricultural banks. There are the Land-credit banks which are institutions which aim at obtaining cheap money for all citizens who have good lands to offer as security. There are the Land-improvement annuity banks to lend money for land improvement projects. Fourthly, there are the general commissions and rent charge banks with the object of lending money for creating homesteads for small-holders. Nor does this exhaust the classes of agricultural banks in Germany. The Savings banks, the Insurance institutions and smaller land-credit banks offer these services to the agriculturists by buying up his mortgages. All these institutions cater for the agriculturists, and each class is adapted to meet the requirements of a different class of cultivators as well as some of their special needs. Yet has this formidable array of institutions wiped out agricultural debts or hindered the growth of co-operative institutions? Far from it; Germany has carried rural co-operative organization to the highest pitch, and there are more than 17000 co-operative societies in that country. Professor Pope tells us that "in Germany the greater part of the personal credit of the owners of small and

* "Rural Credit" by M. T. Herrick, p. 225.

medium sized farms is furnished by the Raiffeisen co-operative banks".*

It is not intended to deny the great services rendered to Germany and Austria by the "provincial banks" of these countries. But it should be noted, in the first place, that these banks are state-owned and do not aim at profits ; in the second place, they do not compete with co operative institutions but merely *supplement* them. The co-operative banks furnish personal or short-time credit, while the "provincial banks" grant mortgage credit or long-time credit mostly for financing land reclamation or improvement projects.

France too has tried the experiment of agricultural banks for more than half a century. It has worked on a highly centralised system and has endowed the *Credit Foncier* with important privileges including the powers of sequestration and expropriation. But this appreciation of agricultural banks has not prevented France from throwing itself vigorously into the movement for co-operative credit, and its experience in co-operation has furnished valuable lessons to the world. At first France tried its usual policy of centralization in the co-operative organization, but it proved a failure. "Since then decentralization has been recognized as the true principle, and the systems since formed for independent farmers capable of taking care of themselves have been constructed on the idea of *building up from the ground and creating credit facilities at the very door of the farm homes.*" Another authority—Mr. Morman—observes to the same effect: "Formerly the idea prevailed among French statesmen that agricultural credit could only be established by the formation of a great central bank from which credit would flow out to all the local credit centres. But when

* Pope : "Agricultural Credit" Q. J. E. xxxvi. p. 728.

the Government of France finally took up in earnest the question of agricultural credit it was planned on an entirely different principle. It was decided that *rural credit should begin with the lowest group ; that the agricultural co-operative society should form its own credit bank which should grow up from its own activity.*"* (The italics are ours). The second lesson which France has to teach is that lavish state help is only a burden to the co-operative organization. There are two systems of co-operative credit banks in France—those receiving direct aid from the Government and those working with their own capital—and, of the two, the latter class has proved far the more successful. As Mr. Herrick observes, "state aid which has been so lavishly extended in France has registered a conspicuous failure." The salvation of the agricultural community is not to be achieved by outsiders.

Italy also has organized a system of excellent agricultural banks, yet it is there that Luzzatti originated a new type of people's bank, while Wollemborg implanted a new system of rural credits especially adapted to Italian conditions. Italy possesses more than 2,000 co-operative banks organized on the Raiffeisen system. In Austria-Hungary, in Russia, in Roumania and indeed in all continental countries there exist both "agricultural" and co-operative banks—the latter a more recent and progressive growth in each case. Japanese conditions might well be of particular interest to India. Japan has no lack of agricultural banks—there is a central land-credit bank, besides 46 local banks, and there are, besides, regional agricultural banks for Saghalien, Formosa and Korea. This great growth of agricultural banks has not, however, enabled Japan to do without the modern co-operative societies. That country had, indeed, in the *Hotokusha* an older form of co-operation. But since 1909 Japan has

introduced co-operation of the European kind. In three years it had achieved wonderful progress, for in 1912 there were 9,349 co-operative societies with one million members and thirty federations. In Japan co-operative societies are of four classes—credit, purchase, production and sale. The scale of their operations can be judged from the fact that the three sales-societies in the silk-producing areas had total sales amounting in 1914 to over 70,00,000 rupees. Prof. Hamilton observes that “there is sure to be a development of co-operation in Japan which will be of the highest interest to those who believe in co-operation for India and are striving to encourage its growth”.

The whole history of agricultural banks thus shows that the demand for loans is much larger than can be met by non-co-operative agricultural banks. There is a limit to the influx of outside loan-fund or floating capital which can be attracted into the field of agriculture. There is a proportion naturally fixed—we may call it an equilibrium—between the capital employed in agriculture and the capital otherwise employed and it is not possible very greatly to increase the former at the expense of the latter. An excellent illustration of this is supplied by Prof. Pope, whom we quoted above, who remarks that “in Europe, despite the favouring conditions, the farm debenture bond finds a market with difficulty owing to the competition of other securities *i.e.*, the agricultural banks cannot attract capital owing to the competition of industries.” So also the Director of the Landschaft of Halle writes that “the development of industry has produced a condition whereby these bonds are not as generally acceptable as before At the present time, therefore, there is greater difficulty than before in placing the bonds”. Thus we see that the supply of capital in the hands of agricultural banks falls very much short of the demand, and the wiping out of all agricultural indebtedness by these banks is quite out of the question.

We now come to consider the Egyptian experiment with an agricultural bank on which Sir Dinshaw relies so much. Looking up the Administration Reports of Egypt and Sudan, we find that even the Egyptian officials and administrators claim only a moderate and modified measure of success for the Agricultural Bank of Egypt. Thus we read in the report of 1902 : "When I say that *a certain degree of success has been attained in Egypt*, I really mean that, under the new system, it is clear that the fellaheen are anxious to borrow, and that arrangement for advances and recoveries has worked well. Before it can be said that the system has been completely successful, it has to be shown that the fellahin are not, generally, *making use of their improved credit to contract fresh debt* at ruinous rates of interest." (The italics are ours). Complaints also appear in the Report of 1899 that "the 10 per cent. interest charged is too high a rate of interest to charge, as the fellahin can often obtain loans at that rate from the local money-lenders."

The system of lending by the Agricultural Bank of Egypt has also the disadvantage, noticed by Mr. Wolff, that "it precludes control of the borrowing, which in a country like Egypt is desirable for the borrowers' own sake".* Some of the money lent without such control is no doubt wasted. It is only under the co-operative system of credit that a good part of the money borrowed by the fellahin is not likely to be put to non-productive uses. In his work called "*La Situation Economique et financiere de l' Egypte*", Prof. Arminion of the Khedivial Law College asks : "For what then does all this enormous capital distributed by the Agricultural Bank of Egypt serve ? Too often it is used for purposes of no advantage to agriculture, for example, for some festival, or to relieve a young man from doing military service". We read

* Wolff : "People's Banks," p. 498.

further on the same subject : "The financial Council of the Bank recognises that the difficulty that the debtors experience in fulfilling their engagements, depends, in too large a number of cases, upon the improvident use they make of the money lent. The practical conclusion from the observation would be only to grant loans on condition of their being invested in a remunerative manner. But it is evident that a bank cannot proceed to verify the use that 250,000 customers make of the capital they borrow. It is perhaps possible to find a solution in the constitution of co-operative credit societies to act as intermediaries between the Bank and the farmers; their guarantee would preserve the Bank from all risks of loss and on the other hand they would contribute to attain the end of not giving any loan which would not benefit the farmer. In fact M. Arminion and many other competent persons observe, such an office might be perfectly discharged by the board of management of a co-operative society, the members of which, while bound by their joint and several liability, know one another and can control each other."*

But has the agricultural Bank of Egypt succeeded in wiping off the debts of the fellaheen? By no means. "By its own unaided efforts, certainly, the Agricultural Bank of Egypt cannot provide for the needs of all the peasant farmers, the number of whom is extraordinarily large" Irrefutable proof is given of the heavy rural indebtedness still existing in Egypt by no less an authority than the late Lord Kitchener in the Report on the Finances and Administration of Egypt in 1913. He had wisely appointed a commission to compile an accurate return of the debts of the poor fellaheen, and on the basis of that report he speaks of the "appalling weight of the debt to be borne by the poorest class of cultivators of the soil in the country." So much for the claim that "a beneficent change

* Bulletin of Economic and Social Intelligence, Rome: 1912, March pp. 166-67.

has come over the fellaheen since the bank opened its doors."

Secondly, has the success of the Agricultural Bank of Egypt been such as to make co-operative credit institutions unnecessary? The answer is again in the negative. As Mr. Wolff puts it, "the demand (for loans) has outgrown the capacity of supply of the Agricultural Bank". By 1910 the first co-operative society was founded in Egypt. Even in the absence of the legislation for facilitating the formation of such societies the movement has spread, and in 1912 there were nine co-operative societies. These beginnings of co-operation were appreciated by the greatest of Egyptian rulers—the late Lord Kitchener—who gave the movement his official benediction in the Administration Report of 1913. He observed: "The possibility of successfully working such (co-operative) system in Egypt and *the advantages to be obtained by it have been demonstrated by experiments* in several villages throughout the country. The creation of a Ministry of Agriculture has greatly facilitated the development of village syndicates, as the new Ministry will be able to supervise and assist the agricultural operations which the co-operative societies will undertake in the villages. Undoubtedly the principal factor on which their success will depend will be the degree of facility with which they are able to obtain advances of money at cheap rates. Such rates can only be obtained by establishing syndicates on the legal basis of registered civil companies, and by placing their finances under the supervision of the Finance Ministry. As soon as legislation on these lines has been enacted we may hope to see a *considerable development of the application of the co-operative principle* to agricultural life in the villages. The help thus afforded to the smaller cultivator will be of great value as soon as the direction of the village syndicates has been rendered thoroughly reliable both as regards its operation and its finances."

Indeed the official opinion in Egypt seems now to have veered round completely on the side of co-operative credit institutions. In his note on the Budget of 1913 the Egyptian Financial Adviser remarked : "The best guarantees for the proper limitation and employment of agricultural credit are those provided by the co-operative system" ; and the late Lord Kitchener observed that he was "entirely in agreement with his adviser". *That after nearly twenty years of experiments with State-loans and agricultural banks, the Egyptian Government should decide so whole-heartedly in favour of co-operative banks is a signal triumph for the advocates of co-operation.*

But even had the Agricultural Bank of Egypt achieved far greater success, that would not have made out Sir Dinshaw's case. The two schemes are widely different. Sir Dinshaw wants Indian capitalists to take their courage in both hands and start provincial banks which are to be private enterprises. But "the Agricultural Bank of Egypt * * * is supported and controlled by the State. About one-third of its shares are owned by the National Bank which stands in close relation with the Government."* This is not Sir Dinshaw's aim who says, in the spirit of bold and self-reliant individualism, which does him great credit, "private enterprise alone is needed". Moreover, the Agricultural Bank of Egypt was founded by European capitalists, whereas Sir Dinshaw relies on his provincial banks to work with local capital. Thus the two schemes are radically different, and no inference can be drawn from the fortunes of the one to the prospects of the other.

Coming to the next stage of our argument it may be urged that everything that is useful in the "agricultural bank" scheme is already to be found in the co-operative credit system, which, through its central and provincial banks, can draw what capital is necessary from outside sources. Moreover, the co-operative

* Herrick : "Rural Credits" p. 188.

central bank; can offer better security to the lender; for while the "agricultural banks" are only backed up by the proposed Government guarantee, the co-operative central banks have not only a similar Government guarantee behind them but also the joint liability of the local banks and their members. A very good example of this is found in the co-operative system of Italy. In 1913, "the capital and reserves of the Italian co-operative banks totalled \$500,000. The deposits amounted to about \$20,000,000 most of which came from outsiders". (*Herrick*) In Prussia about a third of the money at the disposal of the co-operative banks is borrowed from non-members, and in India more than half the capital of the central co-operative banks is obtained thus. But the co-operative banks have got other resources. While utilizing outside funds so far as necessary, the co-operative system stimulates thrift and thus creates new capital which did not exist before. The "agricultural banks" can only *transfer* existing capital, but the co-operative banks *create* new capital by awakening the thrift of agricultural classes. If the saving power of the vast agricultural masses is not thus stimulated, it would need a vast transfer of non-agricultural capital to agricultural purposes in order to reduce sensibly the load of agricultural indebtedness. Since Egypt requires many millions even to make some impression on its debts, India will require very much more to shake off its incubus of debt.

Those who talk of such a stupendous extension of banking in India as to take over in a few years all agricultural debts are under-rating seriously the manifold difficulties in the way of the extension of banking. The history of banking shows that healthy financial development is necessarily slow. India has very recently had an experience of the results of too rapid a growth of banking. The capital and debenture bonds of the proposed agricultural banks would require many millions, not to speak of the great development of financial talent and business honesty needed for the safe progress of such

an enterprise. An unprecedented growth of banking ability and resources would thus be required from a backward and conservative country. It is only a heroic assumption that the *Mahajans* would, on the formation of such banks, invest all their capital in them. On the other hand, so far as possible the local co-operative banks and unions are beginning the work of drawing both the *Mahajan's* capital and local hoards. They have greater facilities for the task, as, naturally, local concerns and enterprises can attract local capital with greater facility than distant provincial enterprises.

Some of the difficulties in the way of non-co-operative agricultural banks may now be considered. Sir Dinshaw proposes that Indian capitalists should start an agricultural bank in each province. To this it may be objected that the provincial banks so started will be too distant from cultivators and will have great difficulty in judging whether particular cultivators or schemes deserve to be encouraged by grants of loans. Even co-operative banks have failed to produce the maximum good of which they are capable when they have undertaken to deal with large districts, as has happened in Russia. Banks conducting operations in large districts cannot possess a proper knowledge of their clientele.

Difficulties will also be encountered by the agricultural banks owing to the number and complexity of the land tenures of India. In some parts of India the land virtually belongs to the cultivator, in other parts he is a mere tenant, in still other cases he is only one member of a large proprietary body. Thus the security for the loans of the agricultural banks will differ immensely in value, amounting in some cases to the whole value of the farm, in other cases to mere nothing, and the loan system will have to be administered in the midst of a wide variety of circumstances, while the system will not possess that adaptability to circumstances which co-operation can ensure.

And here a protest may be registered against Sir Dinshaw's

proposal to employ the tax-gatherer to collect the interest or the principal of the loans made by the agricultural banks. As Sir Frederick Nicholson says, "it would develop, in a high degree, the habit of attempting to over-reach and defraud that entity vaguely known as 'Government', which is usually credited with unlimited means and with the ability to overlook individual debts ; it would add the odium of bailiff to that of the tax-collector." The state will not increase its popularity by constantly and increasingly appearing in the guise of a creditor. But, above all, for the tax-gatherer to be constantly liquidating the debts of cultivators under the threat of attachment is to place the agricultural community in a quasi-insolvent status annually and to declare it unfit for ever to manage its own business affairs. To be thus kept perpetually in *statu pupillari* is sure to have a degrading effect.

Besides helping to alleviate the burden of agricultural indebtedness, co-operative credit institutions offer important collateral advantages both to agriculture and industry which are entirely outside the range and programme of "agricultural banks." On these collateral benefits Mr. Herrick observes : "The only difference which can exist between the interest rates of a co-operative credit society and an ordinary bank comes from the economies effected in the former by not paying large salaries or sharing profit with outside stock-holders or third parties. . . Besides the reduction of interest rate on loans resulting from the saving of expenses, it offers other advantages of a more important character by acting as the business head or financial centre of all activities in the neighbourhood. It either makes collective purchases or sales for members, as in the case of the Raiffeisen credit societies, and thus enables them to obtain supplies at wholesale prices and to dispose of their products without paying commissions to middlemen : or else, as in the case of French syndicates the credit association or its members form other associations con-

connected with it for these purposes." He might have added that genuine co-operative banks possess a vital principle which alone could have brought about that wonderful adaptability to the very diverse local circumstances all over the world which co-operation has shown for several decades. It has also shown its power not only to help agriculturists, but to serve the varied needs of many other classes. There are co-operative non-credit societies, helping industry and trade in numerous ways. There are, on the basis of co-operation, sale societies, insurance societies, irrigation societies, dairy societies, employees' societies, societies for mill-hands and other varieties almost innumerable. Surely the "agricultural banks" can never even aspire to serve all these classes and their needs.

Nor can agricultural banks bring with them that moral, educational and even political progress which has followed in the wake of co-operation. Its value as a teacher of morality is best seen from what happened in the case of Switzerland. "Necessity did not bring co-operative credit into being in Switzerland: It was started because of its moral effect in teaching farmers to be their own bankers and to be mutually responsible for one another." About its merits from the political point of view, Lord Carmichael once observed: "In future these societies will take the place of the old village institutions which once existed in India, and I am sure, I am right in thinking that if they do so, there will be a great change for the better in the administration of the country." So also such a distinguished administrator as Mr. P. C. Lyon had remarked: "It is recognised now on all sides that a successful village society means a far step forward in education and local self-government in its most attractive form." These wise statesmen have discerned that decentralisation and federation are the watchwords of the world-politics of the future and that local, central and provincial co-operative societies afford excellent discipline on both lines. The body-politic like the

healthy natural body should consist of healthy cells, and co-operative work serves as a tonic to the village-systems, which are the cells of which a country is composed.

It is hardly right to call co-operative societies "new-fangled societies." There is enough material, indeed, for a monograph on the antiquities of co-operative credit. In India forms of mutual credit and co-operation have existed for centuries. Russia had her *artels* and other forms of co-operation. The South-Slavs especially the Croats had such societies for ages past. Austria possessed co-operative dairies even in the Middle Ages. The annals of Japan, Sweden and Switzerland show the same co-operative tendencies. Thus, the usage of centuries has shown the importance of co-operative credit.

We may sum up our argument thus—the history of agricultural banks does not show either that they can wipe out agricultural indebtedness or make co-operative credit institutions superfluous. Secondly, Sir Dinshaw's scheme is not on all fours with the Egyptian plan and such success as the latter has attained cannot be cited in favour of the former. Indeed the Egyptian Government has itself been converted to the cult of co-operation. Thirdly, provincial co-operative banks and unions are already working to secure the necessary outside capital for the agricultural class and the establishment of another set of provincial agricultural banks is superfluous. Fourthly, it is very doubtful whether under the present circumstances and in the absence of stimulation of thrift through the spread of co-operation, an extension of banking can take place large enough to reduce sensibly the agricultural indebtedness in India. Lastly "agricultural" banks lack the vital principles of co-operative banks which render the latter such excellent institutions for conferring economic, moral, educational and even political advantages. *Non-co-operative agricultural banks may to a certain extent supplement, but they can never supplant, co-operative credit institutions.*

CHAPTER VIII.

CO-OPERATIVE GRAIN BANKS OR DHARMAGOLAS.

Co-operative grain banks fall under the category of agricultural co-operative credit societies ; the only difference between the two is that, whereas the latter deals with money and money-debts, the former deals with paddy and paddy-debts. It should be borne in mind, however, that our grain banks or Dharmagolas differ very much from the Corn-selling and Granary Societies of Germany which offer the following advantages to the German farmers—

- (1) Improved facilities for cleaning, drying, grading and mixing the various qualities of corn delivered so as to furnish commodities at once good, homogeneous, and easily marketable.
- (2) The possibility of regulating prices by only putting corn on the market according to actual demand—in other words, the reservation of supply.
- (3) The possibility for farmers to obtain credit on fair conditions on the security of their warehoused corn.
- (4) The abolition or reduction to as great an extent as possible of the charges of middle-men and reduction of the cost of transport.

The German Granary Societies partake more of the character of Co-operative Agricultural Sale Societies than that of the Co-operative Agricultural Credit Society, whereas our Dharmagolas are really grain credit societies or grain banks.

Need and objects of Dharmagolas.—Owing to the poverty of the great mass of agriculturists, it often happens that they have to sell their grain immediately after the harvest when prices are at their lowest, in order to pay rent, mahajan's

debts, or land revenue assessment, and that they are unable to keep in hand enough corn to maintain their families until the next year. Prices almost always begin to rise some three or four months after the harvest has been reaped, but the profit falls into the hands of the dealers and not of the agriculturists. The poorest classes generally exhaust their stock of grain by the end of May and have to subsist until the next harvest on grain advanced to them at high prices and heavy interest by their mahajans. If the agriculturists had been able to hold up their produce for 3 months, they could have sold it at much better prices and could have kept in hand a stock enough to carry them over to the next year without an appeal to the sowkars. The objects of grain banks are, firstly, to enable agriculturists to tide over the period of low prices and to sell their harvest at a good profit ; secondly, to create a store of paddy to be lent out to members only for seed grain, maintenance, and for repayment of paddy debts at higher interest and thirdly to create a reserve stock for any unforeseen emergencies, such as famine and scarcity.

The Working of a Dharmagola.—A society must be started at harvest time. Every member has to pay an entrance fee either in cash or in kind. The supreme authority of the society is vested in the general meeting of all the members of the Society : subject, however, to the direction of the general meeting, the management of the affairs of the Society is vested in a Committee of Management which, in its turn, elects one of its members as Secretary and Goladar. The duties of the Secretary and Goladar are—

- (1) To keep the accounts and place them before the Committee at each meeting ;
- (2) To disburse and receive grain as ordered by the Committee ; no grain will be disbursed without an order from the Committee ;

- (3) To keep one key of the *Gola* ; the duplicate to be kept with one of the Committee.

To carry on the work of the Society, the Committee of Management raises paddy by way of contributions or donations, and may also, on behalf of the Society, borrow paddy and accept deposits of grain. The Committee of Management, in special circumstances, borrows money with a view to its conversion into paddy. Every member is bound to contribute paddy to the stock of the Dharmagola, if the general meeting decides to levy contributions in the interests of the association. The general meeting usually fixes a rate at which such contributions are to be levied. It is also expected that every member should make voluntary contributions in cash or paddy on special domestic occasions, such as *sradha*, marriage, birth of a child, etc. When cash is contributed, it should either be added to entrance fees or converted into paddy.

Dharmagolas in Bengal.—The first experimental Dharmagola was started in 1892 by the late Rai Párbati Shankar Choudhury at Joyganj in the district of Dinajpur in Bengal. His idea was to establish a Dharmagola by means of rateable contributions, from the tenants, of ten seers of paddy, or its equivalent in cash, per bigha of cultivated land, to start with. A year of bumper crops was wisely chosen for the initiation of the experiment. The principal members of the village fell in readily with the idea ; a punchayet was nominated ; lists of voluntary contributors were drawn up ; and ultimately eighty maunds of paddy worth Rs. 105 were either collected or purchased with cash collected for the purpose and stored in a granary erected by the promoter at his own expense. At the time of the inception of the Joyganj Dharmagola it was not strictly *co-operative* ; for it was based on a different principle altogether. Its fund originally consisted of voluntary contributions in kind by way of gift by the residents of the

village or a group of villages to which its operations extended and with this as a nucleus it began its work by lending grain to any resident of the village or a group of villages included within its jurisdiction on a reasonable rate of interest. Year after year the fund thus continued to receive accretions in the shape of interest, and its operations grew with the growth of its capital. Even with this loose constitution the institution worked successfully as an unregistered co-operative society till December 1914, when, in order to ensure better working, control and management, it was registered at the instance of the organizer under the new Co-operative Societies Act with its wider scope of registration.

The balance-sheet of the *Dharmagola*, as it stood in March, 1915 will explain how a tiny indigenous concern commencing its work with only 80 maunds of paddy about 21 years ago had attained the position of a useful and beneficial institution for administering relief to the needy cultivator suffering from occasional visitations of famine and scarcity.

	Rs	as.	p.
Cash in hand	973	5	0
2737 mds. $7\frac{1}{2}$ srs. of paddy loaned out	6158	10	9
Interest in kind 181 mds. $36\frac{1}{4}$ srs.	409	4	$7\frac{1}{2}$
Sundry cash advances realizable.	231	15	0
	<hr/> 7773	<hr/> 3	<hr/> $4\frac{1}{2}$

The success of the Joyganj Gola led the promoter to start similar banks at Shaitgarh Teota and at Rahatpore in Dacca district in March 1900 when there was a good harvest after a bad year. Only a small portion of the villagers in these two instances came forward with earnestness and paid their

contributions in grain. The stock stored in these two Dharmagolas was small, but in the case of Shaitgarh Teota Golah those who did not contribute in the first year, contributed in the third year, as they were convinced of the usefulness of the institution by its working in 1901 and 1902. The original stock of 50 maunds increased to 182 maunds in 6 years. In the case of the Rahatpore Dharmagola the original stock of $60\frac{1}{2}$ maunds increased to 186 maunds. There are two similar co-operative grain banks in Bankura District,—one at Banasuria, and the other at Taldangra. The Taldangra Grain Bank was started on the 14th of December, 1906 with a donation of Rs. 50 from the Collector of Bankura and members' grain deposits of 21 maunds. Taldangra and Tantidanga—two villages within the *elaka* of the Maharajadhiraj of Burdwan—came under the operation of the bank. Very soon after its inception, however, the Taldangra society began to grant *both* grain and cash loans, charging 20% on grain loans and 12% on cash loans. The loans were granted only to members who numbered only 26. The society was duly registered in December, 1906. The dual function of the bank, however gave rise to many complications and the office-bearers themselves experienced difficulties in keeping the books. It was felt, therefore, that the bank should either go on purely as a grain bank or as a cash society; the bank was finally converted into a pure cash bank.

A better fate, however, has awaited the Banasuria Grain Society which was started in April, 1906, with 26 members. The original fund was composed of $16\frac{1}{2}$ maunds of paddy paid in by members as admission fees and Rs 50 advanced by the Collector from subscriptions raised previously: paddy was purchased with this sum and the whole stock was invested in loans to members and the society began work in a very satisfactory way. It was duly registered in April, 1907. An

entrance fee of one sali (*i.e.* 20 seers) of paddy is taken from every new member. Repayments are very punctual in this society. Loans are granted in July of every year and received back with interest in next January. The Society built its own Gola, in 1914. Interest is charged at the rate of 25%. At present there are more than one hundred members and the working capital consists of more than 60 maunds of paddy.

Similar societies have been established in another district of Bengal—Midnapur. In Bombay Presidency and in Bihar and Orissa also there are many such societies which advance grain for food between March and September and recover it in kind at the next harvest along with an increment of 25 per cent. The rules and account books are few and simple, and the storage of grain in pits usually costs little and presents few difficulties.

The advantages of Grain Banks.—In his excellent little pamphlet on "Dharmagolas" the late Rai Parbati Shanker summarises the advantages of such grain banks as follow—

- (1) A Dharmagola can be established in each village from its own resources.
- (2) The contribution of each individual being only a small portion of the annual yield of paddy is not likely to cause any hardship.
- (3) The cost of its upkeep will not be heavy, as the posts of the Punchayets other than the Goladar will be honorary. Fit men for the management of the banks will be always available in the village.
- (4) There will be no scope for excessive borrowing from such banks, as there may be in the case of money banks.

- (5) On the accumulation of a stock of paddy in the Dharmagola, old paddy will be exchanged for new paddy securing a profit and preventing sickness that is caused from the consumption of new rice.
- (6) The Dharmagolas, by supplying grain for food to the cultivators in want, would allow them to fetch better prices for their crops.
- (7) The Dharmagola, being the public property of the village, and no one having any right to sell the stock, a reserve stock of grain will ever remain in the country.
- (8) The Dharmagola, if established all over the country, will not only benefit the agricultural classes, but also the Zemindars and the Government as it will relieve them of the necessity of making contributions for assisting the people during famine and scarcity.
- (9) The initiative being taken by the villagers, and the Panchayets being appointed by them, they will take a special interest in these Dharmagolas and will try by all means to maintain them on an efficient basis.
- (10) During times of scarcity a formidable difficulty presents itself in transport of grain to villages which have no railway or steamer communication. The establishment of these banks will solve the difficulty.

CHAPTER IX.

NON-AGRICULTURAL OR URBAN CREDIT CO-OPERATIVE SOCIETIES.

Provision for the formation of non-agricultural credit co-operative societies.—The advisability of providing for the formation of urban or non-agricultural credit societies was recognized even before any steps had been taken to launch the co-operative movement in India. The report of the committee on the establishment of co-operative credit in India—the committee which sat in 1901 and which drafted a bill as the result of its deliberations—contained the following paragraph—"Further, we consider that the efforts of Government should not be limited to encouraging the establishment of purely agricultural societies. The Italian co-operative banks were first started in towns, and taking into consideration the results achieved by them, we consider that endeavours should be made to encourage the formation of urban societies working on co-operative lines. The object which these societies would serve would be two-fold. In the first place, we consider that they would meet an existing want in providing a medium somewhat more profitable than the Post Office Savings Bank for the accumulation of savings by clerks and artisans, and would thus serve as a useful and much-needed incentive to thrift.....Further, one of the main functions of such banks in Italy is the loaning of capital to rural banks and we see no reason why urban societies in India should not similarly provide funds for village societies."

* The Co-operative Credit Societies Act of 1904, based largely upon the recommendations of the above committee, recognised two classes of societies, agricultural and urban, the distinction being that in the former four-fifths of the

members were to be agriculturists, and that, in the latter, at least four-fifths were to be non-agriculturists. It is thus clear that the Government of India intended from the start of the co-operative movement that non-agricultural credit co-operation should develop side by side with agricultural credit co-operation, or at least that every opportunity should be provided for its so developing. Nevertheless it must be remembered that the real motive which has inspired the Indian co-operative movement has been the desire to benefit agriculture. The result is that there were in 1919-20 thirty-two thousand five hundred and ninety-five agricultural credit societies and only 1405 non-agricultural credit societies

The time has now come to pursue a more energetic policy regarding the development of non-agricultural credit societies. "The interest on loans paid by the industrial classes in towns is not lower than that charged to agriculturists. With rising prices, insufficient and insanitary house accommodation, wages often held in arrears, and a desire for a higher standard of living consequent on the spread of education, industrial difficulties are bound to increase, and we are of opinion that any form of organization, such as co-operative societies, that has a tendency to alleviate these difficulties is worthy of support. We would also point out that the excessive development of agricultural societies to the exclusion of other classes means that the demand for money and the repayments of loans are not distributed evenly throughout the year, but occur at particular seasons, with the result that Central Banks during certain months of the year, find it difficult to employ their capital profitably. There are also advantages in bringing the urban classes, and specially the lower industrial classes who at present see little of Government officers except in their judicial or punitive aspects, into close contact with a branch of Government which they cannot but regard

as beneficent. For these reasons we would advocate the extension of co-operation among the non-agricultural classes, provided always that it is carefully supervised and controlled." (*MacLagan Committee's Report*).

Non-agricultural Credit Societies have already made their appearance in all the larger provinces. The total of these is 1405 of which about half are of the unlimited liability type. On the question of the form of liability to be adopted in such societies the MacLagan Committee think that, as a general principle, when the clientele is fairly well-to-do, and when, owing to local conditions, full mutual knowledge cannot so easily be secured among the members, and when the share-capital is adequate to the business undertaken, liability should be limited, but otherwise it should be unlimited. The Committee recommend that in dealing with such societies, central banks would be justified in exercising more caution than is required in dealing with agricultural societies because the co-operative safeguards are not generally so well developed. The members are often scattered or nomadic, with the result that mutual supervision tends to be less strict and difficulties occur in realizing loans. The circumstances of many societies compel them to follow purely business methods and to overlook to some extent the moral sanction that should govern their work. The accounts are often too complicated for the ordinary member to understand. On the other hand in some points many of these societies are superior to the average rural society ; more of their members are literate ; the management and accounts are more careful and accurate ; the accumulation of savings deposits is feasible ; short-term loans and repayments by regular monthly instalments are easily arranged.

In different parts of India very many varieties of type of these societies have come into existence. We intend to notice here three of the most important *viz.*—(1) Middle-

class Urban Banks, (2) Societies for Salary-earners, (3) Societies for poor castes or communal societies.

Middle-class Urban Banks or People's Banks of the Schulze-Delitzsch type—These societies are composed mainly of members of the middle classes ; they issue shares for an important amount, are based on limited liability, and carry on a general banking business both with its own share-holders and with the public. Their membership is constituted from among those resident within a given town. They resemble very closely the ordinary joint-stock banks, and tend generally to drift away from co operative principles. Shares are often taken up for the sake of dividends and money is not infrequently borrowed for speculative enterprises. Their value consists not so much in their services to co-operation as in the training ground they afford to their members for understanding ordinary joint-stock banking : such societies would perhaps be scarcely justified on their own merits in claiming registration under the Co-operative Societies Act, but the MacLagan Committee think that, on the whole, where joint-stock banking facilities are absent, they may fulfil a useful purpose. They observe that "recent experiences in Northern India have shown the dangers of the policy under which Government allowed banking institutions to spring up and carry on business under a control so light as to be almost nominal, but we think that urban credit societies might serve a useful purpose in training the upper and middle urban classes to understand ordinary banking principles... Where ordinary joint-stock banking facilities are absent they might fulfil a useful purpose, and we see advantages in encouraging their formation." Urban banks can serve an important purpose in organizing capital in our cities as well as in mofussil towns and they can do for the small industrialist and business man what rural credit societies

have done for the agricultural classes. Their rise in India is largely to be ascribed to the paucity of the branches of the larger joint-stock banks in the cities. As the Bombay Registrar observes—"The success of this type of society in many places has been remarkable. Throughout the southern and central divisions there are practically no joint-stock banks at work and it is by no means easy for artisans and middle-class people to secure loans when they require them on reasonable terms or to find institutions in which they can deposit their savings with safety."

Societies for Salary-Earners—Agricultural co-operative societies can be started without much risk because the members have their lands, houses, and cattle to offer as security. Also being neighbours and residents in one village, they know one another well and are therefore willing to undertake joint unlimited liability. In towns fewer persons own immovable property, and owing to the greater population there is less mutual knowledge. Accordingly, co-operative societies are usually started with a limited liability and a share-capital. This share-capital is subscribed by the members themselves out of their savings, and is the guarantee fund on the security of which deposits and loans are obtained from the public. The scheme is convenient enough for artisans, small traders, and professional men who have some working capital of their own out of which they can afford to buy a share or two. But it does not suit the large class of salary-earners, whether employed by private firms, government departments, or railways, who are drawing a fixed monthly rate of pay and have rarely any surplus funds in hand. If the wage-earner has not more than Re. 1 or Rs 2 left over after he has paid his monthly bills, it will be a long time before he can manage to buy a ten rupee share in an ordinary co-operative society.

A salary-earner is in a difficult position, because he has

no security to offer to his creditors except his prospect of remaining in his post and drawing his pay. Death or dismissal would deprive him of his livelihood. Transfer might remove him beyond the reach of a convenient court. Any one who lends money to him has these risks before his eyes, and charges proportionately higher rates of interest. He needs loans for medical attendance, marriages, obsequies, &c. as much as any one else. But he has to pay more for the accommodation. When he once gets into debt, he often finds it very difficult to get out of it again and to make a fresh start. With regard to savings, men regularly employed by private firms have often no provident fund in which to invest. Banks despise the humble rupee or two which is all that they can afford to lay by monthly, and without the wholesome compulsion of a definite fund system they find it difficult to save at all.

These general considerations determine the special form which Co-operative Credit Societies for salary-earners must take. First of all the society must be based on thrift, because that is the ultimate foundation of all credit, and thrift implies that every member shall make monthly savings from his pay for contributing towards the share capital of the society. In Bengal this is provided for by the system of payment by monthly instalments of not less than rupee one per share : in Bombay the system is thus described in the model bye-laws—

“Every member shall be required to pay to the society a monthly subscription at the following rates—

Pay	Subscription
Rs 1 to 15	Rs. 0—8
„ 16 to 40	„ 1—
„ 41 to 80	„ 3—
„ 80 to 100	„ 4—
&c.	&c.

In exchange for each subscription paid, he will receive a printed receipt ticket. As soon as he has acquired tickets worth Rs. 10 he may produce them before the Secretary, who will cancel them and issue to him a share certificate for one Rs. 10 share. The certificate will be dated and will rank for dividend from the date of the payment of the first subscription. If a member prefers he may use the subscription tickets, as soon as their accumulated value is not less than Rs. 10, for the purpose of paying off any debt owed by him to the Society."

If the need of a society on the above model is admitted the first step is for a few promoters to come together and to discuss the project. Salary-earners are subject to a more strict discipline than the ordinary public and therefore it is often prudent to add weight to the committee by securing the co-operation of one or two employers or heads of offices. This is particularly necessary when, as is often the case, the society is confined to a single firm or department. The knowledge that their chief is taking part in the society does much to keep members in check. Such men may not usually consent to stand for election on the same plane with their own subordinates and therefore provision may be made in the by-laws for their service *ex-officio*. In some cases they may agree to allow recovery of advances by the society through the pay-bills, and this greatly decreases the risk of default. But even when this cannot be arranged for, the head of the office may promise to help in bringing pressure to bear on recalcitrant debtors. Official support having been secured, the next step is to secure about 40 other respectable employees who are ready to become members and to take up shares. The society will probably want a good deal of capital to start with, in order that it may at once take up debt redemption. This can only be obtained from outside, provided that there is a fair amount

of paid-up share capital to serve as a basis of credit. Therefore a nucleus of substantial men who will take up 5 or 10 shares each is desirable. In admitting humbler members the promoters should be more careful, because their real security, as a rule, is poor, and the society will have to rely to a large extent on their general character for honesty and thrift. Where the employees in a service are scattered over a wide area, it should be considered whether means are available for remitting subscriptions and instalments to the head office, and whether sub-committees will be required. After these enquiries the promoters should hold a preliminary meeting and should discuss and make any changes they think desirable in the model by-laws.

The difficulties which beset co-operative societies for employees are, firstly, the transfer of members from place to place in a big business or department, and secondly, the fact that even on the Committee the members are unable to meet on a footing of equality. It is impossible for them, since they all belong to one service, to forget, in conducting the business of the society, their relative official positions outside it, and in this way influential or highly-placed members are able to secure excessive loans for themselves or their friends, and by recusancy in the matter of payment may seriously embarrass a committee composed largely of their subordinates. It makes for better management if the head of the office, whether a member or not, can watch over the society, and if arrangement can be made by a provision in the by-laws for the recovery of loans by deduction from monthly salaries. The MacLagan Committee suggest that it would often be possible for such societies to encourage thrift, to provide themselves with an improved security, and to simplify their account, if they required all members, as a condition of membership, to insure themselves in the Post Office Insurance Fund.

It has been pointed out that "employees' societies combine a number of features which conduce to soundness of management and to the development of the true co-operative spirit. Thus, in the first place, they consist of homogeneous groups of men in a similar occupation and station in life. Persons who are constantly in contact with one another in their daily work, and who have the tradition of common employment, are very good material for co-operative work. There is the further advantage in the case of such societies that great encouragement could be given to the movement by the employers or official superiors. Moreover, in these societies the procedure of the deduction of dues from the incomes of members can be carried out with the greatest facility. This last system *viz.* ensuring repayment by requiring members to authorize their employer to deduct their dues to the society out of their pay is a salutary (if not wholly ideal) provision which (to their credit be it said) the members generally recognise as a wise assistance to their own punctuality and honesty."*

Such salary-earners' co-operative credit societies have been largely formed among the employees in mercantile, government and railway offices. In Calcutta alone there are more than forty such societies of which the most prominent are the East Indian Railway Employees' Society, the Bengal Nagpur Railway Employees' Urban Bank, the Postal Co-operative Credit Society, the Eastern Bengal Railway Employees' Society, the Calcutta Corporation Co-operative Credit Society and the Treasury Buildings Co-operative Society. The membership of some of these is above one thousand and the working capital in some cases is over a lakh of rupees. On the 30th June, 1921, the Calcutta urban banks, 33 in number, had over 23,000 members and a working capital of over 33 lakhs of rupees, of which nearly 11 lakhs was paid

* Bengal Bihar & Orissa Co-operative Journal, Vol. V. No. 1 p. 75.

up share-capital, over 11 lakhs deposits by members, $1\frac{1}{2}$ lakhs reserve fund, about $9\frac{1}{2}$ lakhs deposits from the public. Of outstanding loans amounting to over 33 lakhs of rupees, only Rs 28, 131 was over-due. In his annual report for the year 1920-21 the Bengal Registrar remarks—"One can scarcely expect to have better figures than these. The Calcutta credit societies are a sound financial group, of great assistance to 23,000 of the middle-class employees in Calcutta offices. By these societies 23,000 Calcutta workers have been enabled to avoid the Kabuli and accumulate savings exceeding 23 lakhs of rupees." Co-operative credit has taught these men the value of joint effort and they have sought to extend their sphere of co-operative action in other directions. Thus a conference of representatives of Calcutta Urban Banks decided to start a co-operative store for the members of co-operative credit societies and others in Calcutta. In bringing forward this proposal before the Conference Mr. J. T. Donovan, then Registrar of Co-operative Societies Bengal, said—"You have made your co-operative credit societies a colossal success. Ten or fifteen years ago, who would have imagined that your working capital today (1920) would approach a quarter of a crore? Perhaps we are now sowing the seed of something greater still than the credit organization and perhaps in ten years' time your record of success in distributive co-operation will eclipse your splendid record in co-operative credit." So it would undoubtedly have done, had the proposed store been started. But, for some unaccountable reason, no further action seems to have been taken in the matter. Probably the difficulty of serving the needs of members scattered over the vast city of Calcutta from a central store stood in the way of starting such a store. But this difficulty is not insuperable: it can be easily got over by having branch stores in several parts of the city. The possibilities of such a big store in Calcutta are indeed great; besides serving the needs of members of

Calcutta Urban Banks, it could do agency and commission work for mofussil supply and sale societies and eventually it could become the co-operative wholesale for the whole of Bengal. Indeed the co-operators of Bihar and Orissa and Assam are still looking forward to its early establishment, for they want to get their supplies through it and to sell their products through its agency. Every effort should, therefore, be made to give the proposed store as early a start as possible.

The need for a Central Urban Bank in Calcutta has not hitherto been felt, mainly because the Calcutta Urban Banks have not usually suffered from want of funds : deposits have freely flowed in to swell their working capital. But of late owing to the tightness in the money market, increased cost of living and the flotation of public loans at high interest, urban banks—specially those newly started—have felt some difficulty in attracting deposits. The time, therefore, has come to seriously consider the question of starting a Central Urban Bank in Calcutta to serve as a balancing centre for the primary urban societies : such a Central Bank is needed to relieve those societies, that have funds lying idle, of those funds, and lend them out to others that need them : if none is in need, the Central Bank will invest them in such ways as may be determined by its Directors. The primary urban banks in Calcutta have had to open account with recognized commercial banks or with post office savings banks : co-operative funds are diverted to commercial use ; whereas if a Central Urban Bank be started in Calcutta, and if it be affiliated to the Bengal Provincial Co-operative Federation, the financial position of the latter will be considerably strengthened and co-operative funds will be utilized in aid of the co-operative movement. As an alternative to the scheme of starting a central Urban Bank in Calcutta we would suggest such amendments to the byelaws of the Bengal Provincial

Co-operative Federation as would enable the Calcutta Urban Banks to get themselves affiliated to it.

In Bombay also there is a large number of these salary-earners' societies of which the two largest are the Great Indian Peninsula Railway Employees' Society with a membership of 5,733 and a working capital of Rs. 4,24,750 and the Bombay, Baroda and Central India Railway Co-operative Society with a membership of 4,074 and a working capital of Rs. 2,11,645. The management of both these societies is controlled from head-quarters, and recoveries of loans made from the members' pay-bills. The Central Telegraph Office Society of Bombay has a membership of 204 and a working capital of Rs. 13,980. The Bombay Postal Society, registered a few years ago, has a membership of about 400 and a working capital of over ten thousand. The spirit and management of all these societies is excellent. They owe much to the personal interest taken in them by their official chiefs.

In Bihar and Orissa there is a steady increase in the number of this class of societies. At the end of the official year 1921 there were 48 such societies with a total membership of 5,518 and a total working capital of Rs. 3,50,418 of which Rs. 1,63,885 represented paid-up share capital. In Madras, the United Provinces and the Punjab salary earners' societies are increasing every year; in the last named province (the Punjab) the North-Western Railway Society has over 2,000 members and a capital of more than 1½ lakhs of rupees.

In these salary-earners' societies the loans are mostly given for unproductive purposes e. g. marriage, *sradh*, payment of old debts, medical expenses etc ; but the societies are generally successful as they have got literate members who readily understand the principles of co-operation. Some of these societies show an inclination towards extending their business to the purchase and sale of the necessities of life.

Such combination of functions should not generally be allowed; but, the advantages of joint purchase may be enjoyed by the members if they pool their demands and advance money for the consolidated purchase of the necessities of life : the accounts should be totally separate and the credit society should not, on any account, be liable for the purchases.

Societies for poor castes.—Indebtedness is also chronic with the poorer castes such as mill-hands, masons, drivers, cobblers, scavengers and sweepers and domestic servants. The efforts of the Servants of India Society, Poona, and the Debt Redemption Committee, Bombay, in introducing co-operation amongst these classes have met with most encouraging results. After a careful study of the conditions under which this class of people lives the members of the Servants of India Society came to the conclusion that there was no hope of reclaiming them except by improving their economic condition. With this object three societies amongst this class of men were started in 1913 and the results attained so far are full of promise. In two and a half years 14 co-operative credit societies had been formed. As a rule membership of a particular society is confined to persons living within a definite neighbourhood and belonging to the same caste or following the same occupation. Members are required to subscribe by instalments for one or more shares and are encouraged to deposit their monthly savings in the society. The society raises further capital by means of loans or deposits from non-members and as soon as possible liquidates the debts of its members. Lectures on thrift, temperance and co-operation form a special feature of the scheme. The societies are supervised by paid inspectors. Government made a grant of Rs. 500 per annum for 3 years to assist the work. The total membership of the 14 societies stood at about 400 of whom the majority have been redeemed entirely from debt to usur-

ers, the average debt of each workman being Rs. 300. Their debts to the extent of Rs. 1,10,000 to usurers have been reduced to Rs. 87,944 by conciliation and transferred from usurers to the co-operative societies. At the same time the rate of interest has been reduced from roughly an anna in the rupee per month to a pice. The societies have advanced Rs. 87,944 for repayment of prior debts : of this total the members have discharged Rs. 40,083 in two and a half years. These societies have reduced indebtedness by nearly one-half and on the balance they are paying quite a reasonable interest. The members who have borrowed from the societies for debt redemption have been insured their lives, and 247 insurances for Rs. 250 each have been effected. A co-operative dispensary has been established and night schools have been set up. The example of Bombay might with advantage be followed in the large cities and mill-towns of India specially in Calcutta and Howrah where the lower municipal employees and the mill-hands are under the firm grip of the merciless Kabuli money-lender.

In Madras there is a keen demand for such societies : in three districts of Madras there are about 250 societies for the depressed and backward classes. At the end of the year 1920-21 there were 48 societies exclusively for scavengers or for municipal employees in which scavengers were admitted. In most of these societies the municipal chairman and other officers of the municipality not only took sympathetic interest but active part in the administration.

Whenever such societies are to be started, in their early stage they need constant help and guidance which can best be supplied by some philanthropic individual or social agency. The work well repays its originator for, as a rule, these classes show themselves very amenable to co-operative ideas and are anxious to learn. To their credit it must also be said that they are generally most honest and punctual in

their repayment "Men of the lowest class" says Mr. Ewbank, "are capable of developing a high standard of honesty and a real sense of self-respect whenever a man of higher class exerts himself personally to help them and encourage them". Since the members, owing to their depressed condition and lack of education cannot hope to manage their own business without long training, specially in the matter of account keeping, the MacLagan Committee think that the support of the clerical staff of these societies is an object for which grants might suitably be given by local Governments on very much the same grounds as justify grants to other philanthropic institutions.

CHAPTER X.

CO-OPERATION AND AGRICULTURE

India is the land of small holdings, small capital and small home industries. Leaving aside the application of the co-operative principle to the organization and development of cottage industries let us for the moment consider the subject of co-operative development of agriculture. Agriculture has, from time immemorial, been the main occupation of the vast majority of the Indian population. In a previous chapter of this book we have described the chronic indebtedness of the Indian ryot and the achievements of co-operative efforts in partially removing this grave handicap to Indian agricultural progress and prosperity. But indebtedness is not the only ill from which the ryot suffers and for which the progress of Indian agriculture is retarded.

Illiteracy is another great stumbling block to progress : without any education—whether theoretic or practical, without any widening of outlook, without any ideals, the ryot goes on patiently following his age-long anti-deluvian methods of agricultural practice. He is shut out from the daily growing mass of knowledge and experience which have made Science the hand-maiden of Agriculture. Illiteracy of the ryot does not, however, mean “unresponsiveness” to new ideas and aversion to improved methods. Practical demonstrations in Government agricultural farms and by co-operative societies have, in some cases, convinced the ryot of the utility of new implements and of new fertilizers. But his illiteracy, his habitual over-cautiousness and conservatism, his fatalistic outlook and his low standard of life make him hesitating and slow to adopt any improved implements or new fertilizers or new seeds. If the light of even the most rudi-

mentary kind of education had entered the dark corners of his mind, he would have been more easily receptive of new ideas and he would himself have taken the initiative in adopting new methods of agricultural practice. In a recent Resolution issued by the Government of Bengal in the Ministry of Agriculture and Public Works the need for "the establishment of a net-work of agricultural schools of an inexpensive type, where the sons of the cultivators will receive a systematic training in the elementary principles of agriculture", has been fully recognized.

These schools will be located within easy reach of the cultivator and will each serve a limited area. They will be of the most inexpensive type. The course will extend over two years and the training will be of a practical character, but in order to keep up the knowledge acquired by the students in the primary schools, some instruction in reading and writing will also be given. The reading will, however, be confined to a vernacular agricultural primer to be written by a departmental officer. The course will consist of agriculture, including cattle management and hygiene, elements of mensuration and surveying, and elementary carpentry and smithy, all with special reference to the every-day needs of the cultivator. Besides these, short conversational lessons will be given to the boys, with the help of lantern slides and charts, on the elements of personal hygiene, rural sanitation, co-operative credit, agricultural improvement, etc., with the object of broadening their intelligence without unduly taxing it. The subjects will be dealt with in an elementary manner and the course arranged in such a way as to be of real help to the student in his after-career as a cultivator.

Every school will have its own land where the students will be required to do all the agricultural operations themselves (in a joint plot in the first year, and in individual plots

in the second). In addition they will be required to do the annual repairs of the school house and to keep the place clean. No habits of luxury will be encouraged and there will be no furniture except mats for the boys to sit on. The headmaster of the school will also be the agricultural demonstrator for the locality and each school will in reality be a demonstration centre where the local people can get visual evidence of the value of agricultural improvements. Each school may also serve as centre for lectures for the surrounding villages.

The entrance qualification of the pupils will be the lower primary standard and the minimum age 13 or 14 years for boys with a strong physique. It is expected, however, that these schools will be taken advantage of by much older boys of the cultivating classes. The authors of the scheme consider that a course of agricultural education even of the most elementary character, if it is to have a permanent effect, should extend over two years. But it is realised that the Bengali cultivator may often be unwilling to spare his son for so long a period, and to meet the difficulty it is proposed to make the first-year course as complete as possible in itself to enable such boys to profit from one year's attendance. It will be a course suited to cultivators' sons who wish to work their own small holdings on improved methods without going in for any great expenditure. It will embrace a comprehensive grounding in the elements of agriculture. The second-year training will be a continuation of the first-year on higher standard with the addition of a few practical courses on special subjects like *gur*-making, tobacco-curing, poultry-farming, vegetable-cultivating, butter-making, cigar-rolling, etc., according to the facilities which the locality affords for such training. The curriculum will be adjusted to suit the requirements of more advanced cultivators who can afford to go in for intensive crops and the use of simple improved implements and better manuring.

The scheme is a very well-conceived one and if it is practically given effect to, it will go a long way towards laying the foundation of a great edifice of agricultural progress in this country. It will be recognized, however, that the very magnitude of the problem demands state aid and, it cannot be solved by isolated efforts of individuals or of co-operative societies. Some co-operative societies have, with laudable zeal, undertaken the education of the sons of their members and have met the expenses out of their slender profits. They deserve all praise for their sacrifice and energy and such good examples deserve wide-spread imitation all over the country. But they can only supplement state efforts and it is the state alone which can, and ought to, undertake this great task of banishing illiteracy from the land and thus making the task of all-round rural reform an easy one.

Granted that indebtedness and illiteracy are banished from the land, will that be enough for increasing the productivity of the soil and the prosperity of the ryot? The answer must be in the negative. With ill-nourished physique, with primitive implements, with inadequate irrigation facilities, with ill-fed, ill-bred and famished cattle, with small, scattered, uneconomic holdings, with bad varieties of seed, with no facilities for marketing, with no staying power, with the Mahajan and the Marwari middlemen always standing in the way and reaping all the profits, the ryot cannot make agriculture a paying business and always remains where he was. In all these spheres co-operation has achieved wonders everywhere and it can do wonders in India, too.

In European countries, though co-operative credit has done much for agriculture, it is in other directions that agriculture has benefited most from co-operation. And the methods chiefly employed seem to fall under one or other of the following heads—

- (1) The joint purchase of requirements, household or

agricultural or both, for retail distribution to the members

- (2) The joint purchase of expensive machinery and implements to be jointly owned by the society and to be leased out for individual use by the members
- (3) The joint sale of the produce of the members
- (4) The joint preparation for market of the members' produce and its joint sale after preparation.

All the above forms of activity have been of the greatest service to farmers, and the success of some of the societies, notably those of the first and fourth types have been simply astounding. It is reasonable to hope that activities of a similar nature may likewise be found profitable in India, both in the world of agriculture and the world of industry, especially in the case of cottage industries, like weaving.

Co-operative purchase of agricultural requirements.—In the purchase of seeds, manures, or feeding stuffs, the individual ryot has to pay each of the long chain of middlemen who get things from the wholesaler or manufacturer : he is, moreover, very often cheated in quality and weighment. The joint purchase of requirements for retail distribution to members has several obvious advantages. Firstly, the society buys on wholesale terms instead of retail terms and thus secures for itself or the members the margin which exists between the wholesale and the retail prices and which constitutes the profit of the ordinary middlemen. Secondly, owing to the fact that the quantity ordered by the society is large, dealers will be anxious to do business with it, and will treat it with greater respect and consideration than they will care to show to an individual ryot. In particular the society will be able to insist on good quality in the articles supplied—a matter of great importance. Thirdly, the society gets into the open market where compe-

tition will disclose the real value of the articles it wants to buy, a circumstance conspicuously lacking *e. g.*, when a ryot has perforce to buy his seed from the local money-lender. And fourthly, the society secures a great economy in freight by importing the requirements of its members in one large consignment instead of their being imported by each individual member in a quantity of small consignments. Fifthly, owing to its greater financial stability, the society can afford to buy at the right time.

One difficulty about this type of society for the joint purchase of agricultural requirements is that it meets only once or twice in the year, and practically ceases to function in the interval when its members are not in need of such purchases. "It is consequently difficult to get the members to take an interest in the affairs of the society beyond the actual purchasing operations, and occasionally societies decay for this reason. They also find it difficult to get payment from their members until the article which has been purchased has given some use. Thus, a man who buys fertilizers expects not to have to pay until the crop comes up. Consequently it is hard for the societies to pay promptly their debts to the wholesale agency with which they deal" (*L. Smith-Gordon, Co-operation for Farmers, p. 171*). Thus the supply of agricultural requisites may be combined with the supply of domestic requirements. Though here, again, a word of caution is necessary *viz*, that, in the absence of District and Provincial Wholesale Agricultural Supply Societies, it would be difficult for the local primary Co-operative Supply Society to compete with the simple, frugal village *moodi*, so far as the supply of domestic requirements is concerned. If, however, there is a net-work of such supply societies federated into wholesales, there would be considerable economies, which would enable the society successfully to compete with the local grocer or general storesman.

"In Denmark", says the learned authors of *Rural Reconstruction in Ireland*, "the supply societies which cover the country districts, with a membership 80 per cent of which is agricultural, make the supply of domestic requirements a leading feature of their trade. The example seems to be worth following in any country of small holders,"—and India is such a country of small-holders : under present conditions of Indian rural life, however, it is futile to hope for the successful development of such distinct and separate supply societies except in select localities. That might be possible in Denmark where the rural population is the best educated in the world—better educated than the industrial ; here in India conditions are entirely different. "In Germany" says Mr. Wolff, "under circumstances far more resembling those of India, acting for a humbler class of people—likewise in similarity with what has to be done in India—Raiffeisen struck out a different path, in our present sense in the opposite direction to the Danish". In the small parish societies Raiffeisen made his rural society a "maid of all work"—supply figures very prominently in the business done by them. Similarly, the most striking feature of Japanese rural co-operation is the very common combination of purchase, sale etc., with credit functions in one and the same society.

Such a combination of the functions of a credit society with those of a supply society is to be found in Ireland, Germany, Austria, Belgium, Spain and Japan ; the paucity of intelligent and literate men in our villages would seem to suggest that the General Purposes Society of the Irish and German model rather than the Single Purpose Society of the Danish type, ought to be adopted in Indian villages.

The trend of expert opinion on this question will be apparent from the following extract from the Maclagan Committee's Report—

"Most forms of agricultural non-credit societies, and especially those for the supply of seeds and implements, can in our opinion best be combined with credit societies. In fact not a few societies returned as credit societies, have such annexes maintaining separate accounts but with same membership. Much has been done, notably in the Central Provinces, in growing and distributing improved seed through organizations of this sort. Whether the work should be centralized and left to a Central Bank, or localized and dealt with by a primary society, will depend in every case on the sort of function undertaken. Ordinarily we do not think that a society should itself become the owner of commodities handled. It is preferable that it should buy or sell on commission or on some system under which it merely undertakes joint sale and purchase on behalf of their members at their risk."

The Indian variant of the German, Austrian Belgian and Spanish method of combining the functions of credit society with those of a supply society is the Madras method based on a system of indent. This method is thus described by the late Mr. F. R. Hemingway, in a paper published in the *Bombay Co-operative Quarterly* (Dec. 1919)—"when a co-operative purchase of any commodity is contemplated in a village, it is the business of the punchayet to obtain from each member an indent as to how much he wants and an understanding or an undertaking that he will take over from the society on its arrival the quantity indented for by him and pay for it, either in cash or by taking a loan from the society for the purpose. Payment or the issue of loans can, of course, be concluded in advance, if thought necessary. The amount is then ordered wholesale; and payment is made by arrangement with the central bank; and the supply when received is distributed immediately on arrival. These operations are often facilitated by several societies combining their indents so

secured for a large joint purchase. This is sometimes done by an informal arrangement with the local supervising union to which the societies belong. More often, the societies in a given area combine permanently into a *Trading Union*, in which they take shares and to which they look to do this business. These trading unions have a substantial paid-up share-capital contributed by societies alone, or by a joint membership of societies and individuals. Sometimes, they are constituted out of ordinary urban co-operative stores which are prepared to admit credit societies as members and to do an agency business with them. It is the duty of these trading unions to get periodical indents from their affiliated societies and buy their requirements in a large joint purchase. They can afford an establishment and are naturally able to command the services of men more experienced in business than those available in a village Punchayet, and the work is actually more efficiently done by such unions than by the unaided credit society."

"The co-operative year 1918-1919" continues Mr. Heningway, "saw a considerable development of this kind of business in the Madras Presidency. It was specially stimulated by the high prices of domestic requirements, in spite of the difficulties in transport and supply. Some 200 village societies did a trade of about three lakhs of rupees and the estimated profit derived by the members was nearly Rs. 60,000, or 20 per cent. The chief articles dealt in were rice, salt, seed manure and kerosine oil. The trade continues and is rapidly increasing*. The possibilities of its expansion may be roughly

* But the latest Madras Report (1920-21) says that the work done by the trading unions was not satisfactory during the year. Commenting on the Registrar's Report the *Madras Bulletin of Co-operation*, April, 1922, observes—"Trading Unions and stores had a rather difficult time, though the fall in their transactions was not much, the majority of them worked at a loss which, in some cases, was due to a fall in the prices of stocked goods. But it was generally due to bad management and want of loyalty in members. Two years ago when there was scarcity of rice many co-operative credit societies obtained

estimated by the following calculation. In the village societies in the Madras Presidency, there are over 1,70,000 members, and it is not an extravagant estimate to suppose that, on the average, each member purchases, from outside the village, articles capable of being purchased co-operatively worth Rs. 200 a year. If each member obtained these requirements by co-operative purchase, and if the business was done so as to secure a saving of not more than 10 per cent. (not an extravagant figure) the sum taken from the pockets of unnecessary middlemen and placed into the pockets of the village co-operator would amount to no less than 34 lakhs per annum. There should seem to be no great inherent difficulty in securing a substantial measure of this result within a not very distant future. And if we imagine all the credit societies grouped under a net-work of trading unions, and the latter grouped under one or more wholesale trading societies, a rapidly increasing efficiency might well be expected."

The results achieved in Madras can be achieved in every other province in India, though the absence of supervisional unions in many provinces may make the progress slower than in Madras. Still the system ought to be tried in select areas in every province and if it succeeds, it will open up a new vista of progress and save the agricultural population from the payment of the huge annual toll exacted by the middleman. Thus if, by a supreme feat of organization, the one million members of the 32,500 credit societies in British India could be organised into Provincial Wholesale Trading Societies and these latter again could be federated into an All-India Wholesale, then, according to Mr. Hemingway's calculation,

facilities for getting controlled Burma rice. But during the last co-operative year there was no need for Burma rice and consequently the volume of non-credit transactions in credit societies shrank very considerably. Stores, whether agricultural or non-agricultural, are much more difficult to manage than credit societies and the proportion of failures leading to liquidation is quite large among them. That ought to make us more careful in starting and managing them but not discourage us altogether."

the sum taken from the pockets of unnecessary middlemen and placed into the pockets of the village co-operator would amount to no less than 200 lakhs of rupees per annum.

Along with the tendency towards combination of functions the system of forming separate Single Purpose Societies for the supply of different agricultural requisites has also been at work. Thus there are separate Manure Societies, Seeds Societies Implements Societies etc. Let us here take stock of the progress of these societies in India.

Manure Supplying Society.—No crop will thrive unless it is properly manured and as a general rule the profit will increase with the amount of manure applied. Every agriculturist is, therefore, bound to consider the question of manure supply. For ordinary dry crops, the natural manure of the farmyard is the best and cheapest and for this reason as little as possible of this should be used as fuel and as much as possible reserved for agricultural purposes. But for most of the high-class irrigated crops it will be found profitable to use some sort of artificial manure. To buy this cheaply is often difficult, because it has usually to be procured in large quantities, imported from a distance, and stored for some time before use. The traffic naturally, therefore, has fallen into the hands of middlemen accustomed to mercantile methods. By enhancing the price beyond a reasonable level, by supplying manure of inferior quality, by falsifying weights, and by charging bazar cesses over and above the selling price, the middlemen often secure for themselves an excessive profit at the expense of the agriculturists.

The object of a Co-operative Manure Supplying Society is to eliminate the middleman and to secure for the agriculturists themselves the profits now appropriated by him. The method of forming such a society is not very difficult. The promoters should first ascertain the probable number of persons likely to join the society and should estimate the

amount of artificial or concentrated manure required by them altogether. Having done so, they can calculate approximately the total price of the manure that must be bought, and this is amount of capital which they must manage to raise in the first instance. Since a good deal of executive power will be in the hands of the Secretary, and many purchases will be made by him at a great distance from the society, members cannot undertake joint and unlimited liability. It will be better to raise capital by issuing shares of Rs. 5 or Rs. 10 each, fully paid up, with liability limited to the face value of the shares. Promises to buy shares should be recorded in writing by the promoters, and fixed deposits bearing interest at about 6½ per cent. should be invited. As soon as they have secured sufficient capital to enable them to start business, steps should be taken to get the society registered.

The Directors are responsible for the purchase of good and suitable manure. In particular they must arrange to buy it at the proper season and in the cheapest market, after taking into consideration the expense of freight and storage. Before paying for manure, they should open several of the bags delivered and make sure that it is up to sample. For instance castor cake may be found brittle and liable to crumble when the sample is firm and solid, or it may be mouldy and stale while the sample is fresh and good. Again the Directors should exercise commonsense in buying the right sort of manure. In the year when the price of castor cake rules high, it would be advisable to buy fish-manure or some other sort of cake, if it is suitable to the crop raised. The society must remember that though it will be easy to sell manure at rates lower than those prevailing in the Bazar, it will often be difficult to make sales, considering that it has to charge a higher rate in order to cover expenses. The business is bound to be slightly speculative, but when doubt is felt as to

the future trend of prices, the Directors should always try to err on the safe side.

In the Bombay Presidency there are several Manure Supplying Societies and the progress achieved has been very satisfactory. Castor, groundnut and safflower cakes have become very popular. The total quantity of manures purchased by the Bombay societies is annually about 10 million lbs: the demand is specially strong in those tracts where sugarcane is grown. Local credit societies finance their members so that they can pay cash for their purchases, and in this way the manure societies secure a rapid turn-over and carry on a large business with a modest working capital. The Tanjore District Co-operative Manure Society in Madras promises to become the centre of manure distribution to the co-operative societies in the district; it manufactures bone meal and flour phosphate and supplies the manures to the members at a rate far below the current rates.

Seeds Supply Societies.—In various forms modified to suit local conditions, co-operative organizations for the production and supply of seed have been the first fruits of the successful working of credit societies. The details of organization vary much—the work may be undertaken by the credit societies or by unions of credit societies or by separate and independent societies altogether. The Manipuri Agricultural Supply Society is an instance of the last type. It produces and supplies seed not only to the members, but to the whole locality. In one year it distributed 209 manuds of Pusa wheat and stocked 777 maunds for distribution next year. In the Punjab there are several Seeds Societies for the supply of American cotton seed. In South Arcot the Rettanai Co-operative Agricultural Society is doing useful work in connection with the distribution of good seed of Cambodia cotton and Groundnuts. In Berar there has been a remarkable development of 'Seed Unions' which are groups of ten or

more cultivators undertaking to propagate pure seed supplied by the Department of Agriculture. The Chairman of the Union gets a supply of seed of the much-prized cotton, known as *roseum*, from the Government farm at Akola which acts as the main centre of distribution. The other members of the Union get their seed from the Chairman, and non-member cultivators get it from the collective stock of the Union. There are 36 such Unions in the cotton tract, 21 of which are registered co-operative societies. The non-credit central agricultural supply society at Hardoi in the United Provinces was formed with the object of supplying improved seed and implements to its members who represent mainly the agricultural primary societies and individual agriculturists of the District. It was registered in November, 1920, but it took over the seed depot of the District Board and started work before formal registration. Its working year closes with the end of the calendar year and, by the end of December, 1920, it had sold 3,064 maunds of Pusa wheat and 99 maunds of cotton seed taken over from the Agricultural Department. At the end of this short period of two months it was able to place Rs. 2000 to reserve fund and Rs 550 to fluctuation of prices fund. Since the close of the year it has enlisted 43 preference and 81 society shareholders, and at the close of the co-operative year it had a working capital of about Rs. 7,000. It distributed about 82 maunds of *kharif* seed and had about 1,000 maunds of Pusa wheat for the *rabi* sowings in stock. It also sold 200 maunds of manure and a few improved implements : implements are also given out on hire.

As regards the supply both of improved seeds and of manures, the Central Banks in Behar and Orissa have played a prominent part. The principal items of their programme are the supply of improved seed, introduction of green manuring, profitable crops and the maintenance of breeding

bulls. To form an idea of the agricultural activities of Central Banks we may take account of the progress made by the Nawada Central Bank. In 1920-21 it distributed 168 maunds of Pusa wheat seeds to the societies. It has also obtained excellent result from groundnut cultivation from which members got Rs 144 per acre as against Rs. 25 only which they used to have before by growing *kurthi*. More than a dozen societies have taken to the cultivation of groundnut during the year and about 140 acres are reported to be under it now, the expected outturn from which under normal conditions should not be less than 2,800 maunds. The Bank also made experiments with various kinds of sugarcane and found that the yield of the Australian variety was about 65 maunds of *gur* per acre while that of the local varieties did not exceed 46 maunds. The members have naturally come to believe in the Australian variety and propose to cultivate it on a large scale. Several other Central Banks have similarly distributed large quantities of Pusa wheat seed, groundnut seed and cotton seed.

Incidentally there arises the question of the propriety of the Central Bank's combining credit with supply or distribution : according to Mr. Wolff "such combination not only ceases to be legitimate, but becomes downright dangerous. Combination opens the door to grave and easy abuses. One form of temptation very frequently occurring is this—which ought to be familiar to Indians from their dealing with banias and mahajans—of an improper and improvident purchase being pressed upon the customer because there is the credit department conveniently handy to afford the necessary credit." Hence it is Mr. Wolff's injunction to Indian co-operators not to utilise the Central Banks as Supply Associations. "They already undertake more than they are equal to. They have not, in any case, a superfluity of capable men at their command with sufficient leisure to attend to Board duties.

Complaints are heard of their being often one man institutions. It would be a mistake to overtax them. Let them stick to their bank business and do that well and leave supply to others." But so long as the "*others*" are not forthcoming and so long as a sufficient number of disinterested men are to be found on the Board, the Central Banks may successfully combine the function of supply with that of credit : and the experience of Bihar and Orissa amply proves the wisdom of the step.

It must, however, be admitted that the results achieved in Bihar and Orissa are largely due to the hearty co-operation between the two sister Departments of Co-operation and Agriculture. The remarks of the Registrar of co-operative societies in this connection deserve careful consideration from all—"This Department could have done little without the expert advice and ready assistance of the officers of the Department of Agriculture. They in return must find an excellent medium for their work in the organization of the Co-operative Department. It links them with the most backward cultivators in the remotest villages. The Deputy Director or an Inspector of Agriculture makes some practical suggestion to the Directors of a Central Bank and offers his help. These suggestions are taken up and conveyed to perhaps a hundred societies with an average membership of 20 each. Some improved seeds or seeds of some special crops are given to the Central Bank and they are at once distributed amongst suitable societies. Thus it takes no time, no special labour, now to propagate the knowledge required for effecting improvements amongst the agricultural population, nor is there any difficulty in giving a fair trial to any experimental cultivation which the Agricultural department may wish to see done. What is wanted now is a larger number of men of the type of an Inspector of Agriculture who should be in constant touch with the Central Banks and with their assistance reach the masses. The conservatism of the Indian

agriculturist is almost proverbial. He does not believe in anything unless it comes from one in whom he has a faith. The Central Banks have now created sufficient confidence amongst them and any proposals made through them are now more readily accepted than before." (*Bihar and Orissa Registrar's Report, 1920-21.*)

The need for joint and co ordinated action of the two sister Departments is so obvious that it should require no special pleading on its behalf. The betterment of the condition of the Indian ryot is the object of both the Departments and their joint action can render the achievement of that object easier and quicker.

Implements Supply Societies—Great developments have taken place in England and Ireland in the establishment of co-operative societies for the supply of agricultural implements and in many cases societies have been formed especially for this purpose. The system adopted has been for the society to buy from its capital certain implements required by members and to let out these to members on hire. The rates of hire have been fixed high enough to leave an appreciable margin of profit and to enable it to recover the cost of the implements quickly, the receipts so obtained being credited to a general fund with which further implements are purchased as soon as possible. In this way after a few years' working, several of these societies have found themselves in possession of a considerable number of improved implements. And the scheme has not only worked successfully from a financial point of view, but has been of the greatest assistance to members by enabling them to bring large areas of land under valuable crops, and to effect economy in labour.

The general practice in India is for the Agricultural Department to place small stocks of certain implements at the disposal of Central Banks or primary societies for

furthering their use amongst their members. These implements are in some cases sold direct or given on hire, or in other cases sold to members on the instalment payment system. In this way a large number of the cheaper implements, such as Meston ploughs, has been introduced. Thus in the Punjab the Union Banks in Jullunder, Gurdaspur, and Hoshiarpur stock implements for sale. So also in Bengal increasing use is being made of co-operative societies for furthering the use of improved implements, (also seeds and manure) : there is also a scope for co-operative ownership of sugarcane mills and possibly of oil engines for driving mills.

Co-operative Consolidation of Holdings Societies

—Even if the ryots are provided with steam or motor ploughs by co-operative agencies, they cannot make a profitable use of them on account of the excessive fragmentation of holdings : the operation of the Hindu law of inheritance has resulted in the progressive sub-division and fragmentation of holdings : and, as Professor Jevons points out*, scattered holdings are admitted to be a serious evil which is frustrating the progress of agriculture in several parts of India. Dr. Harold Mann† has also called attention to the evils of excessive sub-division and cultivation of scattered fragments of land. He points out that cultivating a holding of small scattered fields has the great disadvantage of very small holdings in preventing the use of machinery and labour saving appliances.

There is no custom here, such as is found in Europe where the Code Napoleon is in force, of the elder brother buying out the younger and so becoming sole proprietor of the ancestral land. The effect of these tendencies is for the land to be held in smaller and smaller parcels ; and as on partition among the heirs each claims and gets a share in each

* *Bulletin no. 9 of the Economics Department of the University of Allahabad.*

† *Land and Labour in a Deccan Village, Ch. III.*

kind of land, each owner becomes possessed of a number of scattered fields throughout the area of the village. The evils of such fragmentation are obvious ; no easy solution of the problem has hitherto been found. It occurred to Mr. H. Calvert, Registrar of Co-operative Societies, Punjab, that a solution along co-operative lines might be found which would prove acceptable to the cultivators. To this end, he propounded the following scheme.*—

"Each owner had to agree to the desirability of consolidation, and to the general idea of repartition of the village lands with this end in view ; each such owner had then to agree to abide by any plan of repartition approved by two-thirds of all the owners ; and further to give up possession of his own lands and to accept in exchange the lands allotted to him ; all disputes to be referred to arbitration ; possession so given was to be cultivating possession for four years only ; on the expiration of this period, the former possession was to be restored unless all the participating owners unanimously agreed to retain the new division as permanent ownership. Persons accepting these conditions could form a Co-operative Consolidation of Holdings Society. The general meeting would discuss the method of partition and decide on the main principles to be observed, such as the kinds of lands, the retention of former possessions, and whether minor differences as to trees, etc, should be made good by money payment and so on. In the case of any difference of opinion, any resolution would only be binding if two-thirds of the members approved of it. If there were not two-thirds of all the members in favour, then it would be necessary to devise some alternative method, or the society would dissolve. When a method of partition had been decided upon, the managing committee was to proceed to draw up a scheme of

*From an article on "Co-operative Consolidation of Holdings in the Punjab" in the *Agricultural Journal of India*, Vol. XVIII, Part I.

repartition in accordance therewith. This scheme was to be placed before the general meeting ; if two-thirds of all the members accepted it would be binding on all ; otherwise it was to be discarded. If a scheme received the approval prescribed, members were bound to give up and accept possession in accordance with it. A member, who felt aggrieved, could refer the point in dispute to arbitration. Members, thus exchanging land, would be tenants for four years ; during that period any, who chose to convert this temporary possession into permanent exchange of ownership, were at liberty to do so ; and it was intended and hoped that many, if not most, would do this before the four years elapsed. At the end of four years members would have to decide whether they would revert to the former possession or make the new scheme permanent or retain the temporary arrangement for a further period. Failing complete unanimity, the fields were to be restored to the former owners, and the society would automatically come to an end at the end of five years. The extra year was allowed for the settlement of disputes by arbitration".

Our apology for quoting at length from Mr. Calvert's article is to give our readers a clear idea of the scheme from the pen of its author himself who has earned the gratitude of all co-operators for finding a co-operative solution of a problem which has taxed the ingenuity of many legislators in various lands. The merit of the scheme lies in its entirely voluntary basis : compulsion in such cases is bound to cause failure. Moreover, the temporary basis of the re-arrangement for four years only and the provision for reversion to former possession are great allaying factors which are bound to disarm any opposition to such a society being started even amongst the illiterate and ever suspicious ryots of our country: four years are a sufficient period for demonstrating the benefits of consolidation. Up to the end of September 1921, sixty-nine Societies for the Consolidation of Holdings had

been registered in the Punjab, and "the gross result is that 1,653 owners, who formerly possessed 8,100 acres in 10,906 fields, now have this land consolidated into 2,071 blocks. The average size of a field before consolidation was three quarters of an acre ; now it is four acres". Surely this is a great achievement which should inspire co-operators of other provinces to make similar efforts and thus remove one of the greatest handicaps to the progress of agriculture in India.

"Of the economic result", says Mr. Calvert, "it is too early to say much. Prosperity is not built up in a day : but the reports received show already some changes. In one village it has been possible to get rid of a guard (*rakha*) over the crops, thus saving a sum equal to a considerable proportion of the revenue charged on the land. In Ghazikot rents have increased for the compact blocks, as the tenants find those easy to manage. In this village the consolidation has created parcels of land which can be irrigated from a well ; previously fields were on the average three-quarters of an acre in area, now the average is over four acres ; the former is too small to justify a well, the latter is large enough to make one profitable, already six new wells are under construction. Another advantage discovered is that, with larger fields, there is much economy of canal water. To irrigate a number of petty scattered fields involves a waste of water as it has to be carried over a number of channels ; with a consolidated holding this source of waste diminishes. In another village it is proposed to plant fruit-trees on portions of the new parcels of land. * * * In one village the owners, after consolidation had given them compact parcels, bought Meston ploughs. These ploughs are not handy for the very small fields, but this difficulty does not remain when the fields are large".

These are very tangible results and are sure to bring home to the members of the societies the solid advantages of consoli-

dation. Such successes in one village are bound to lead to the formation of new societies in neighbouring villages ; indeed Mr. Calvert hopes that about 100 to 150 more villages will be re-adjusted during the current year (1922). He has shown for the first time in India that consolidation can be carried out in practice ; his efforts have been ably seconded by a devoted band of officers who have moved among the villagers, explained everything to them, removed all their doubts and difficulties, and, with infinite patience and sympathy, have laid the foundations of a new movement fraught with vast potentialities for the progressive development of agriculture in the Punjab. The Punjab has made a good beginning : will not the other provinces follow her lead ?

Co-operative Irrigation Societies.—All efforts to effect agricultural improvements will be fruitless if facilities for irrigating the land are not forthcoming. Some interesting schemes for irrigation on co-operative principles have been tried in the United Provinces. One of these is the Kunwar Co-operative Society for pumping water from the Gumti at a place in the Sultanpur district for distribution in the fields of the members of two or three adjacent credit societies. In this experimental undertaking the Government of the United Provinces bore the initial cost which was realized in instalments from the societies. The latter levied a rate from each member according to the area irrigated. "If the experiment proves successful," wrote Mr. A. C. Chatterji, formerly Registrar of Co-operative Societies, U. P., in the *Indian Journal of Economics*, "as we have reason to hope it will, there is every prospect that we shall be able to organize water supply societies in suitable tracts for the pumping of water from rivers, streams and large shallow lakes and supplying the same to agriculturists who may or may not be members of credit societies. The organization will of course be simpler if all the members of the water supply

society are also members of credit societies, for then the collection of dues will offer no technical difficulties. Similar organizations will also be feasible in the case of pumping installations attached to wells with a large supply of water, specially tube wells, in tracts where such wells can be sunk with advantage. It is not possible for individual agriculturists very often to undertake the cost of a pumping installation, but there is no reason why a number of them should not combine for the purpose. The idea is already catching on in some of the western districts *e.g.* Bulandshahr, and although the pioneer work there in this direction is being performed by credit societies, I hope that in the near future societies with the sole object of the supply and distribution of water from wells will also spring up."

The first irrigation society in Bengal was formed in the year 1916 at Khelar in the district of Midnapore by the combined efforts of members of two successful rural co-operative societies in the area. The object of the society was to construct a dam across a natural stream and to distribute the water to the fields of the members by means of artificial channels. The cost of the scheme was met from shares subscribed by the members. The society has removed a real want in the locality and is greatly appreciated by its members.

The formation of co-operative irrigation societies has recently come to prominence owing to a strong demand for such societies in the district of Bankura in Bengal. Over a hundred irrigation societies are in course of formation in the district of Bankura for the execution of irrigation work entailing an expenditure of over 3 lakhs of rupees. Nearly 50 of these societies have been already organised and are actually working and the remainder are in various stages of organization. Of these, the Salbandh Irrigation Society, formed for the construction of a dam on the river Harinmuri to irrigate at least 6000 bighas of land, has been

offered a loan of Rs. 30,000 by the Government of Bengal. The series of crop failures from which the district has suffered in recent years have brought home to the people of Bankura the urgent necessity for irrigation works for the storage and distribution of water and for keeping the existing irrigation works in a state of proper repair. Some of the societies have been formed for the construction of *bunds* across natural streams and the distribution of water by means of irrigation channels, while the majority of the societies have been formed for the re-excavation of irrigation tanks.

The objects of the irrigation societies, at Bankura, as stated in the model by-laws, are—(a) to irrigate lands, (b) to dig, cut, maintain reservoirs, canals, water courses, bunds or any other works to facilitate the irrigation of such lands, (c) to hire or purchase modern scientific appliances for the irrigation of the aforesaid lands; (d) generally to do all such other acts as are incidental or conducive to the above objects or any of them. The main features of these societies are—(1) societies are formed on a limited liability basis, but in order that they may be in a position to offer adequate security to their creditors the liability of the members are fixed at a certain multiple of the nominal value of their shares; (2) the number of shares to be subscribed by members are fixed with a view to meeting full costs together with incidental charges; (3) the number of shares which a member purchases is based on the quantity of the land which will be benefited, (4) in the case of societies where members are not able to pay the full value of shares in one instalment provision is made for the execution of irrigation schemes by means of deposits and loans to be repaid from payment of share calls as they fall due; (5) provision is made for satisfying the creditors of societies that members

have sufficient assets against which the liability they have undertaken for the debts of the societies can be enforced ; (6) provision is made for proper maintenance of completed schemes either by a levy of water rate or by a levy of the capital cost of maintenance.

For the success of the irrigation movement it is very desirable that societies should be organized with great caution. In particular it is very necessary that there should be a careful estimate of the cost in respect of the projects for which societies are organized. Owing to the absence of a wholetime Agricultural Engineer difficulties were experienced in preparing careful estimates. The Government of Bengal have, however, recently appointed an Agricultural Engineer and now those difficulties will disappear. A Central Co-operative Irrigation Bank has been formed to finance the Irrigation Societies in Bankura.

"For the complete solution of the famine problem," says Mr. G. S. Dutt, the Collector of Bankura, who is mainly responsible for the remarkable development of co-operative irrigation in Bankura, "in the district in the course of—say—3 or 4 years it is obviously necessary that the progress will have to be so multiplied many times more that the entire number of 30,000 irrigation tanks in the district may be restored to their original condition and that all the streams running through the district may be fully utilised for the conservation of water." The task is of immense magnitude but the results so far achieved fully justify the determined effort that is being made by the people of Bankura under the vigorous leadership of their Collector—Mr. G. S. Dutt. "Already" says Mr. Dutt, "the effect wrought by this co-operation has been almost magical. It would not be an exaggeration to say that the whole outlook before the people of the district has been altered in the short space of 5 months. Wherever an irrigation society

has been formed disunion has given place to close and active co-operation ; fatalism in blank despair and in action have given place to activity and the spirit of a new life."

To give the reader a concrete instance of what co-operative irrigation can achieve in the domain of rural progress in the life of an agricultural community, let us cite here the story of the wonders wrought by co-operative irrigation in America. Harold Powell, writing on *Co-operation in Agriculture*, dwells on the striking fact that in the United States of America in 1909, of the total irrigated area of land *viz.*, nearly 14 millions of acres, no less than one-third was under co-operative enterprises, and he goes on to say—"I believe it is safe to say that in no other industry in the United States is there so large a percentage of co-operation as in irrigation."

Co-operative Farming.—The co-operative farm is Italy's special contribution to agricultural co-operation : it came into being as a remedy for two evils—in Emilia to mitigate unemployment and in Lombardy to eliminate the middleman rent-collector. Two main types of society have been evolved, one individualistic and the other collectivist. In both, land is rented or purchased) by the society for cultivation by its members. In the one, each member cultivates his own plot, paying the society rent in cash or in kind. In the other individual possession is not allowed, or only to a limited extent, and instead members work for a fixed wage under the society's manager and all produce is pooled. This type is generally Socialist, and the other, which predominates, is mainly Catholic. The collectivist farm is only possible where cultivation is done by the laborer, and the individualist where it is done by the tenant.

The members of the associations are journeymen laborers in the case of the farms having a collective management, *coloni* or small owners in the case of those having a divided

management. They do not, except in Upper Lombardy, live on the land they cultivate but in villages or small towns more or less distant from it. The duration of the leases varies in the different cases from 9 to 25 years, and the lands taken are the property of the State, of corporations or of individuals. The necessary capital is nearly always obtained by credit, in South Italy from the special institutions granting agricultural credit, and in North Italy, where these institutions are lacking, in various ways, from institutions granting co-operative and other credit, from private capitalists, from buyers of agricultural produce, from the associations holding the farms in the form of advances, or from the members of these associations in that they concede that the payment of their wages shall be delayed.

Beyond farming the lands the associations usually exercise some complementary functions to the profit of their members. They conduct collective purchases and sales, keep agricultural machines, manufacture cheese, practise the mutual insurance of live-stock, and afford agricultural credit either as middlemen acting for the institutions to which the law entrusts this function or as autonomous deposit and loan funds. Besides the economic activity which has been described, the associations holding collective farms practice a more or less intensive social activity to the advantage of their members, establishing technical schools and children's homes, and organizing occasional courses of lectures on agriculture and other subjects tending to popular education. The Government of Italy, recognizing the value of these associations as a solvent of the unemployment problem, has made opportune provision for facilitating the letting of State lands to these collective farming societies of laborers.*

* For fuller details regarding "Co-operative Farms" see article on "Collective Farms" in the May, 1918, issue of the *International Review of Agricultural Economics*.

The societies of the individualistic type having a divided management take a lease of a plot of land for nine or, at most, for twelve years. Each member—nearly all are peasant farmers accustomed to small holdings—receives a plot of land varying in size according to his need from $1\frac{1}{2}$ to 10 acres. This he must cultivate himself, and provided that he does not sublet, that rent is paid and the land not abused, he will not be disturbed until the lease expires. The distribution of the land is then revised, and if one family has too much and another too little, adjustments are made. Every member finds his own implements and live-stock, but costly machines like fodder cutters and threshers can usually be hired from the society. Seed, manures and other agricultural requisites are supplied on payment and co-operative sale is also attempted.

These individualistic farms have considerable possibilities and there is no section of the agricultural community which it cannot serve in one form or another. As Mr. M. L. Darling says in his book on *"Co-operation in Germany, Italy and Ireland"*—"It is the only kind of society that would, I think, be a better foundation for a rural co-operative system than the village bank. To the tenant its advantage is obvious ; and to the proprietor, too, large as well as small, it has a message. To the small, it is the message of better farming. From a good co-operative farm he will get the skilled teaching and guidance that nearly every peasant farmer still needs the whole world wide ; and in addition, he will enjoy facilities of supply and sale denied to others. To the large proprietor the co-operative farm is a reminder that 'the landlord can no longer be considered as a proud and inaccessible deity, to be served by his dependants with reverence mixed with fear.' In the Punjab the experiment might well be tried of a colony based upon a system of co-operative farms. There would probably be no better way of converting

the Punjabi into a good cultivator. Moreover, it might give him the stimulus to develop his land which has now to be given by ownership.*

The experiment has been tried with good results in Roumania and in France. In the latter country the movement began on 1908. Most of the French societies of this type before the war were for vineyards—a type of cultivation which lends itself particularly to co-operative work. The co-operative method has also been employed in market gardening ; one such society at Fontenay began with a capital of 12,000 francs in 1913—it has already a reserve fund of 42,000 francs.

So far attempts at introducing co-operative farming have been made only in Bengal and Burma. Shortly after the passage of the amended Co-operative Societies Act of 1912 Sir D. M. Hamilton took the initiative in forming the "*Young Men's Zemindary Society*" to introduce co-operative methods in the cultivation of large areas and in the acquisition of Zemindaries. The Society holds on sub-lease 500 bighas of land from Sir D. M. Hamilton's Farm at Gosaba (in the Sundarbans reclaimed areas) out of which 200 bighas have been let out to two youths who pay Rs. 2/-8 per bigha to the society which in turn pays Rs. 2 to Sir Daniel Hamilton. The remaining portion of the land has been leased out by the Society to the local people. The Society also holds on 40 years' lease the Kaikhali lot in the Sundarbans ; it has retained 1000 bighas *khas* ; it has let out 800 bighas to 4 members ; and the remainder covering about 5000 bighas has been sub-leased to 7 persons after taking a premium of Rs. 20,000 ; and the society admitted them to membership, because it could not induce its *bona fide* members to take leases for the purpose of cultivation. The society, though financially

* M. L. Darling's "*Co-operation in Germany, Italy and Ireland*," Ch. XIII.

successful, is very far from realizing the intention of its founders *viz* to bring the educated young men back to the land and thus to mitigate the hardships of middle-class unemployment,

Far more successful, however, are the *Co-partnership Tenancy Societies*—the Italian co-operative farms under a different name—which have been started in Burma. The object of this type of society is to reduce the difficulties of colonization in areas lately brought under cultivation. One of these experiments has been made in the Kadonbaw Tract in the Hanthawaddy District where a forest reserve has been dis-afforested, and thrown open to cultivation. The tract covers about 23,000 acres. The area is leased to co-operative societies formed by groups of cultivators migrating to the area and not granted or leased to individuals. The tenure is a co-partnership tenancy without share capital, the funds for the initial breaking up of the land being taken from Government in the form of agricultural advances. The money is lent to societies at the ordinary rate of interest and they make advances to their members at higher rates. The difference in the rates of interest and the margin of rent over land revenue form the reserve fund which will amount to a substantial sum in the course of a few years. Thirteen settlements have already been formed each with its own society and loans have been granted sufficient to meet all reasonable needs of the colonists. The experiment is one of very great interest since it represents an attempt to combine the communal system of cultivation with principles of co-operation. As far as it has gone the experiment promises to be successful.

Co-operative Sale or Marketing of Agricultural Produce :

The types of non-credit agricultural co-operative societies hitherto described aim at "better farming" ; but the ryots will

not gain much if the benefits of better farming are reaped by the middlemen intervening between the producers and the ultimate consumers: the process of agricultural production cannot be regarded as complete without the sale of the products. With "better farming" must be combined "better business"; the producer-ryots must control the joint sale of their products if they are to reap the full benefits of their co-operative activity. In his great work on "*Co-operation in India*" Mr. Wolff has reminded us that one-sided co-operation—whether of the credit, distributive or productive variety—labours under great disadvantages. It is only when co-operation is an all-round movement that it can achieve its full utility and can escape the danger of becoming a class-movement. The various phases of economic life are so inter-related that one cannot improve one aspect of agricultural life without necessitating improvements in other respects. Thus in European countries we see, side by side with the development of agricultural credit, the rise of great societies to sell the agricultural produce for the producer and to buy supplies of machinery, fertilizers and necessities of life for him.

India is particularly backward in the matter of organization for marketing agricultural produce. The ordinary middleman loses no opportunity of defrauding the agriculturist and in some cases of damaging the market-value of the latter's wares. One of the highest authorities on Indian agricultural affairs, Mr. Keatinge, sums up the matter by observing that the Indian agriculturist is seldom able to protect himself in his dealings with the man who is at once his banker and his salesman and who has sufficient hold on hand to prevent him from taking his custom elsewhere. A considerable fall in prices always takes place immediately after harvest and as the agriculturist commands but little capital he cannot afford to wait for a rise of prices—where advances are made against crops the cultivator has to pay a very high rate of interest

and he has to bind himself to market his crops through the medium of the lender. The middleman takes full advantage of his commanding position in the small up-country rural markets, and, as there intervenes a number of transactions, a deduction is made from the value of the crops at each stage. Nor is this all, as the authority already quoted goes on to say, "the middlemen often indulge in illegitimate mixing, adulteration, dumping and other improper practices, against the risk of which the manufacturers or exporters can only protect themselves by offering a lower price. This means so much off the residue left for the cultivator." It is not enough for co-operation, under such circumstances, to have supplied credit to the Indian cultivator ; it must go further and find means to free him from the great loss due to the practices described above ; and here co-operative sale or marketing comes to his rescue.

Such co-operative marketing has been most scientifically developed in California : a study of the accomplishments of the organizations* there indicates that growers' co-operative marketing organizations handling agricultural products are capable of—(a) saving the time of the producers ; (b) facilitating the transport of the produce to the market ; (c) securing fair dealings for men who have little business knowledge ; (d) securing for the co-operative society, and so for the producer, the profits of the middlemen ; (e) securing better prices by grading and standardising the produce ; (f) securing a different class of purchasers by selling in bulk on a large scale ; (g) securing a good name for honest dealings and high class produce.

The experiences of these organizations during the process of their evolution, and of other organizations that have been attempted from time to time, indicate that in order to serve

* One of the best books on the subject is "Co-operative Marketing" by W. W. Cumberland, Ph. D., Professor of Economics, University of Minnesota.

their purpose and continue in successful operation, it is essential that certain fundamental principles be observed in their organization and management. While certain organizations may continue with apparent success for a time, and others may attain a limited degree of success for a still longer time without conforming to all these principles, there is likely to be a fairly close relation between the degree of success attained and the extent to which the principles alluded to are observed. These principles are thus enunciated by Professor J. W. Lloyd—

1. Organization for marketing purposes can be most readily effected when conditions in an industry are such that the need for improvement is quite generally apparent to those engaged in the industry.

2. Unless at the time of organization, the conditions in the industry are so unsatisfactory that striking improvements are possible early in the life of the organization, the organization itself is likely to die from inertia or succumb to attacks from outside interests.

3. There must be a sufficient volume of one product or closely allied products represented by the membership of a local organization to enable shipments to be made in car-load lots and to effect a sufficient aggregate saving in the cost of marketing to more than counter-balance the expenses of operation.

4. The organization must be composed of persons whose interests are similar. Membership in a growers' association should usually be limited to actual growers of the crop to be marketed.

5. Definite provision must be made for financing the business of the organization.

6. Benefits accruing from membership in the organization should be distributed among the members in proportion to the value of the products handled for each.

7. In a properly constituted growers' co-operative marketing organization, it makes little difference whether the voting power is based upon individuals, volume of product, or shares of stock.

8. For the purpose of marketing the product of a large horticultural industry, an affiliation of local organizations is preferable to a single large organization made up directly of individual growers. In such an affiliation the identity of each local should be preserved and its interests fully represented in the central organization.

9. Each organization must possess a degree of administrative ability and business acumen commensurate with the volume of business to be transacted and the intricacy of the problems to be solved.

10. The details of handling, selling and distributing the crop must be adapted to the nature and volume of the products.

11. Loyalty of individual members and mutual confidence among all factors in the organization are absolutely essential to the permanent success of any co-operative enterprise.*

The principles so clearly enunciated above should guide the efforts of those who take upon themselves the task of organizing co-operative marketing associations in India. So far there have been few attempts at organizing sale societies, pure and simple, formed to assist the members in the disposal of their crops and the products of agricultural industry carried on by them and to enable the members by means of joint sale to obtain better value for their crops and produce. There are many such societies in Burma where they combine with credit business the sale of paddy and ground-

* From an article on "Principles of Co-operative Marketing as illustrated by California experience" in the *International Review of Agricultural Economics*, June, 1920.

nuts on behalf of their members direct to wholesale dealers at Rangoon. The establishment of such societies had rendered possible the elimination of unnecessary middlemen. The result was that profits, which previously went to these middlemen, became available for division between the agriculturist, the merchant and the ultimate consumer. The removal of such agents, as were merely parasitic, meant more rapid business, a quicker turnover, and a better understanding between the wholesale purchaser and the producer of the crop. Almost all the Burma Sale Societies are, however, temporary institutions formed for the purpose of the year's business and finally wound up at its close. Few of the sale societies in operation are permanent institutions and the majority exist only for the particular season during which they are at work, and wind up their affairs at the conclusion of their business. This lack of continuity prevents the creation of a permanent staff of men skilled in their administrations and there is a tendency for such societies to rely too much on the Government staff.

In Bombay there is a great scope for the development of Cotton Sale Societies—specially among those cultivators who make their loose seed-cotton up into *dokras* (bundles in sacking) and take it to the nearest market, where they sell it through their *dalal* or agent. Mr. Keatinge, in an informing article in the *Bombay Co-operative Quarterly* (Vol. I, No. 1) thus describes the prevailing system of sale of cotton in the Southern Marhatta country—

Each cultivator takes into the market a certain number of *dokras* of seed-cotton roughly done up in sacking and weighing about three or four hundred pounds apiece. When he arrives at the market he goes to a *dalal* and puts himself in his hands. If there is any buyer in the market ready to buy from the *dalal*, the cotton is weighed in the presence of the cultivator and sold on the spot. This, however, seldom

happens. What usually occurs is that the *dalal* notes down the number of *dokras* received from each man and marks them with his name. The *dokras* of each cultivator are not kept separate, but are all mixed together, though sometimes a careful *dalal* will keep separately *dokras* from a village noted for high ginning percentage, and will obtain a slightly better price for them. The actual sale of the cotton does not necessarily take place on the day on which the cotton is brought to the market ; indeed, in many of the smaller markets, sales take place only once in two or three days when the buyers come to purchase. When the *dalal* has got together a number of small lots of cotton and a buyer is found, the *dalal* will sell all the cotton he has on hand. The buyers consist either of regular dealers in seed-cotton or the agents for mills and export firms. Thus in the great majority of cases the cultivator does no more than bring his seed-cotton to the market and hand it over to the *dalal*. The weighment is not done in his presence, nor is the price fixed in his presence. He puts himself entirely into the hands of the *dalal*—why do they do so with the full knowledge that they are not fairly treated by him ? The answer is that they have no alternative, and for the following reasons—

- (a) Most of the cultivators are ignorant of business methods, many are incapable of checking weighments, and few are capable of calculating prices.
- (b) The individual cultivators bring in small lots of cotton to the market, while the buyers want to buy big lots. A middleman is therefore necessary to put the two in touch with each other.
- (c) The *dalal* advances money to cultivators against their crop, making it a condition that the latter will market their cotton through him.
- (d) The *dalal* advances sacking to the cultivators on the same condition,

It is clear, therefore, that in the absence of any other agency to perform the work done by the *dalals* the latter are indispensable to the cultivators. There is no doubt that an efficiently managed Cotton Sale Society could undertake all these duties, could put cotton on the market in the condition in which the users require it, and could establish a reputation for honest dealing and for high class graded produce. Of course, the management of the sale society must be efficient and the commission charged to the cultivators must be sufficient to pay for this.

Mr. Keatinge thinks that the work will naturally be divided between the villages and the market. For making advances against the crop and for supplying the sacking, the agency of the village credit society will come in, and it is through the influence of the village societies that pressure can be brought to bear on members to bring in their cotton clean and unmixed. The marketing operation must naturally be done at the market, but the village societies and the cotton growers must control the society and feel that it is their own; otherwise mutual credit cannot be established. In 1918 a start was made by the establishment of four cotton sale societies in the Dharwar District of Bombay; since then several such societies have been started there. These sale societies buy and issue (1) seed supplied, by the Agricultural Department, (2) seed obtained by the ginning, under the Society's supervision, of cotton sold at the Societies' auction. No other cotton seed is stored or distributed by them.

The system of auction sales of cotton has been found to be the best method of obtaining for the cultivator the full value for his cotton. The success achieved in the Cambodia Auction Sale has been so striking in the Dharwar District, that even the ignorant and the illiterate agriculturists are eager to send their cotton for auction sales.

At the beginning only auction sales of Cambodia Cotton were held. But recently auction sales of Kumta Cotton have been arranged for the Dharwar, Hubli and Gadag Sale Societies. All these sales are successful and fetch prices from 15 to 25 per cent higher than those prevailing in the market. Buyers are also satisfied with the classification made by the societies on the basis of purity, cleanliness, staple, strength, and ginning percentage. That the buyers pay higher prices shows itself that they have no complaints against the societies' classification. Grading is a great stimulus to keep up the purity of the variety. When a cultivator sees that a neighbour's cotton has been classed "A" whilst his own is only "B" he generally copies his neighbour in his future field work.

What has been achieved in Bombay by the Cotton Sale Societies is also possible in Bengal. We have a notable co-operative achievement in the Naogaon Ganja Cultivators' Co-operative Society which deals with a crop grown on an area varying from 1 to $1\frac{1}{2}$ square miles licensed annually by Government. The crop is grown under license and sold under license—the society has in fact a monopoly of production and sale at fixed price; no wonder, therefore, that the annual profits should be counted in lakhs of rupees. If we have Paddy-growers' Societies or Jute Cultivators' Societies, they may not have the monopolists' advantages or the monopolists' profits in lakhs, but we doubt not that they will enable the ryots to adopt scientific methods of production, to improve their material condition in diverse ways, to eliminate the parasitic middlemen and thus get better value from the joint sale of their produce.

• The prevailing system of the sale of the two staple crops of Bengal is almost identical with that described above by Mr. Keatinge. "An experience of over two years in an area entirely jute-producing", wrote Mr. J. T. Donovan

in 1915, "has convinced me that the ryot loses to parasites about three rupees out of ten rupees on his jute. Here is a chance for a co-operative society or a group of societies. Co-operation can eliminate all these parasites and give the ryot a far larger profit on his jute." The main difficulty about the formation of Jute Sale Societies is that transactions in jute are of a highly speculative character and that, consequently, it is subject to great fluctuations in price, which add largely to the risks of co-operative sale. Consequently sale societies which undertake to deal in jute must be financially very strong indeed and thus able to hold back the crop from the market and to store it in godowns during periods of depression. There is no other way of avoiding this particular disadvantage in the case of our leading staple; heavy loss might be caused to members by collapse of the market in the absence of great financial strength. Something could be done in this direction if the sale societies entered into forward contracts with big buyers and exporters and obtained part payment of the price sometime ahead. So far we have heard only of a small Jute Sale Society at Kamarpara in the Rungpore district of Bengal. We have a better and a more successful instance of co-operative sale of agricultural produce in the South Kanara Garden Planters' Society consisting of growers of area and other garden produce. Its main business is the joint sale of these products through the society's agent at Mangalore. In one year it did a trade of about 4 lakhs of rupees.

The Co-operative Commission Shops in the Punjab represent another successful attempt at solving the problem of marketing surplus agricultural produce of districts. In districts like Lyallpur the development of specialisation in agriculture, whereby the farmers raise crops like wheat, cotton, grain, and oil-seeds in excess of local requirements, has brought about an intricate marketing organization.

The surplus produce is collected in *mandies* (containing shops of *ahrties* or commission agents, practically all of whom are non-agriculturists, through whose shops most of the produce is sold to the wholesale dealers) and transported to large centres of consumption overseas. This collected surplus is made up of the relatively small surpluses of many individual farmers, to deal with which a number of middlemen have arisen, each class of whom discharges a special function; and the various charges levied by them have spread among the farmer the idea that the system is defective and that the costs of marketing could be considerably reduced by the substitution of a co-operative organization with a system of patronage dividends, that is, a division of the profits—after paying a dividend on stock at the current rate of interest—in proportion to the amount of business or patronage contributed by each member.

Accordingly the first Co operative Commission Shop was started at Lyallpur in December 1919 with a membership of 43, ten of these being societies and the rest individuals. Share capital, fully paid up, amounted to Rs. 14,050. A shop in the *mandi* was taken on rent, and sites for the permanent shop and godown were purchased at a cost of Rs. 18,000. The godown, a large building, is nearly completed (December, 1921), and work will soon be started on the shop. The share capital is now (December, 1921) Rs. 26,000, and there are 88 members, 14 of them being societies. Since the start Rs. 4 lakhs worth of produce has been marketed through the shop and a net profit of Rs. 1,546 has been earned, after paying all expenses, which amount to about Rs. 150 per month. The bye-laws permit, after placing one-fourth of the profits to reserve, the granting of a bonus of not more than three months' pay to employees and of a dividend not exceeding 8 per cent. on share capital. Out of the balance, a rebate may be dis-

tributed to members in proportion to their transactions, provided that they sell through the shop a minimum amount of produce to be fixed once a year in general meeting. So far the idea has been to build up capital, and no dividend, bonus or rebate has been given. The bye-laws authorise the payment of an advance not exceeding 75 per cent. of the estimated market value of the produce to every member delivering his produce for sale at the shop. The staff consists of a manager and an assistant manager who work under the supervision of the chief director and the managing committee, the latter being, of course, elected in the general meeting. Committee meetings are usually held once a month. The shop charges 8 annas per cent. commission on all produce sold, as compared with the usual *mandi* charge of 12 annas. As regards the other miscellaneous expenses for weighing, cleaning, etc. the co-operative shop charges Rs. 3-9 per cent. less than the other shops, and is yet able to show a fair 'profit' in spite of poor business and a temporary boycott. "Working in close touch with the village society," says Mr. W. W. Powell in an article in the *Bombay Co-operative Quarterly* (June, 1922) from which the above information is gathered, "they are striving to break down an evil system of credit, on which the *ak'ities* and village buyers are mainly dependent for their business, and which has made Lyallpur, the most prosperous district in the province, the most indebted as well. From the endeavour to attain this end by the method of co-operation important social and business benefits too are likely to result. Individualistic tendencies will be broken down and the farmer coming in contact with one another at meetings will find it easier to meet in social intercourse. They will learn business methods and gain a higher sense of business responsibility."

The possibilities of co-operative sale organizations are great in every province of British India. Cotton in Bombay, jute

and paddy in Bengal, wheat and oranges in the Punjab—all these are capable of co-operative organization. In an article on "Co-operation Marketing" in the *Agricultural Journal of India* Mr. Calvert laments the lack of proper marketing organization for Punjab oranges. "The province grows a fine orange known as *malta* but there is no attempt to place it on the market on a modern system. There is no grading, and hence there is no inducement to the growers to look after their trees, to prune and manure them, and to improve the fruit. There is little attempt to find a wider market, and hence the production is far smaller than it should be. The garden-owners usually sell the crop on the trees to a contractor and seem quite satisfied with the produce. There is practically no attempt to store, though the orange being hard-skinned keeps well, and the whole produce is thrown into the towns as it ripens. What the industry might develop into, if thoroughly organized on the lines of the California Fruit-growers' Association, can only be guessed!" Similarly, co-operative sale organizations for Punjab wheat and United Provinces oil-seeds are big with possibilities, though in such cases the construction and maintenance of Grain Elevators may be felt to be absolutely necessary; and here the example of Co-operative Elevators in Saskatchewan is highly instructive.

The Saskatchewan Co-operative Elevator Company had the following origin. In response to representations made to the provincial government a Royal Commission was appointed in 1910 to enquire into matters affecting the grain trade and to advise the government in this connection. After a thorough investigation the Commission reported unanimously • in favour of special legislation providing a farmers' co-operative grain handling organization, to be assisted by a government loan but to be controlled by a managing body elected by the share-holders. The Commission recommended that

capital should be provided by the farmers in the districts which would be served by the required elevators, these farmers subscribing for stock up to the amount of the cost of the proposed elevators and paying 15 per cent. of the subscribed capital in cash. It was also recommended that the total area which the share-holders had under crop should be not less than 2,00 acres for each 10,000 bushel capacity of a proposed elevator as this would ensure that it would be possible to run the elevator profitably. If these conditions were fulfilled the government would advance the 85 per cent. of the subscribed capital still unpaid, this loan to be repayable in 20 annual instalments and to bear interest at the rate of 5 per cent per annum. An Act embodying the recommendations of the Commission was passed in the spring of 1911 and the executive of the Grain Growers' Association undertook the preliminary work of organization. The following table shows the growth of the enterprise and its business down to the close of 1917-18.

Year	Number of shareholders	Number of elevators	Number of bushels of wheat stored	Number of bushels of wheat sold
1911-12	2,597	46	3,211,000	.....
1912-13	8,962	137	12,899,030	12,761,686
1913-14	13,156	192	19,465,290	19,290,531
1914-15	14,742	210	13,764,653	13,642,807
1915-16	18,077	230	39,089,000	39,674,000
1916-17	19,317	258	32,359,725	33,518,836
1917-18	20,683	298	25,994,552	26,554,277

Causes of failure of Co-operative Agricultural Sale Societies :—While advocating the development of co-opera-

tive agricultural sale organizations we should not be blind to the difficulties of working them successfully; and here we cannot do better than study the causes of failures of Agricultural Sale Societies in those countries where they have been started in large numbers. In the *Agricultural Gazette of Canada* of October 1919 were published a series of short articles by different writers explaining the reasons why in the different provinces a certain number of agricultural co-operative associations had failed.

Nearly all the writers assigned as a principal reason the *lack of efficient management*. This applies specially to associations for the sale of produce. To be successful in marketing it is necessary to have had several years' experience and too frequently the sales-manager of a co-operative association is chosen from amongst the members and has had no practical experience. Efficient sales-men cannot be obtained for small salaries and co-operators must be prepared to pay a good man an adequate salary. Nor is a sales-man who has been successful in a private business necessarily successful in managing a co-operative association, as it is a different kind of undertaking.

Another important cause of failure is the *want of loyalty* of the members. Cases are not infrequent where organizations have failed through the disloyalty of a single member. In one of the western states the members of a co-operative society obtained accurate estimates of the crop in which they were specializing, calculated the fair market value, and agreed to sell their total production at a specific price. One member was induced by outside interests to sell for a lower price, apart from his fellow-members. The result was unprofitable returns for their product and the disorganization of the co-operative society.

Closely associated with want of loyalty is the *opposition of those whose interests are affected*. Such persons take advantage

of mistakes made by the co-operative society to arouse discontent amongst the members and induce them to withdraw their support.

Some societies fail through *lack of interest* on the part of the members. In some cases the need of organization was not pressing, as the members had previously been obtaining satisfactory returns for their produce. The most successful societies are usually those which were formed because of the great obstacles with which the members were confronted. Co-operation should be born of necessity. Loss of interest on the part of the members may result from various causes. It is apt to occur where the shares are of small value ; a man's interest in a society is usually proportionate to his investment in it and societies which require their shareholders to invest a fairly large sum secure better support and retain the interest of the members better than societies where the investment is smaller. Another cause of loss of interest is to be found in the fact that many associations carry on their business spasmodically ; car-loads of goods are brought from time to time, but no regular stock is maintained. Organizations which maintain permanent stocks secure better support. The tendency apparent in some associations to leave the business management in the hands of a small group also results in loss of interest amongst the general body of the members.

Some societies have failed through *attempting to operate with too few members*. The business of such societies is too small to make it possible to buy or sell to advantage. It is true that successful co-operative societies have sometimes started in a small way, but there are cases where it is better for a group of farmers in a particular district to join with an organization already formed rather than to attempt to conduct business on a small scale. On the other hand, there have been instances of failure through *starting*

on too large a scale, before experience had been gained or sufficient capital provided.

The downfall of some societies has been caused by *speculation*. There is a temptation to speculate as a co-operative society must show immediate results to succeed, the members rarely being willing to wait while the business is being built up before deriving benefit from it.

Anxiety to make a good show at the beginning sometimes leads also to *operating on too small a margin*, which is a further cause of failure. Societies are tempted to cut prices of supplies considerably below the regular trade prices or, in selling produce, to give the members prices well above the current market price. This usually causes outside opposition and an attempt is made to break up the co-operative organization. Moreover, by working on too small a margin nothing is provided for emergencies. The safest plan is to follow current prices and to return the members a dividend on their sales or purchases out of the profits made, after setting something aside as a reserve fund.

Lack of education amongst the farmers is another reason assigned for the failure of co-operative sale societies. It has been noted in Ontario that it is less difficult to form a successful co-operative society in a district where there are several farmers who have been trained at the agricultural college than in districts where no such farmers are found.

In a few cases *local conditions* militate against the success of co-operation. There are districts where the people are naturally more suspicious of each other than in other districts.

The joint sale of produce after its preparation for market by co-operative activity :—This is a remarkable feature of co-operation in other countries. It is especially manifested in the English and Irish creameries in which very large profits are made. A number of farmers form a society to handle

and market their milk, and extensive buildings and up-to-date machinery are acquired, generally on credit. All the milk is brought to the factory and is there turned into butter by the latest scientific methods and the butter is sold who'sale to big merchants. The essential point about these creameries, apart from the general advantages of joint sale described above, is that in the preparation of the raw produce (milk) for market (in the shape of butter) great economy and great efficiency can be secured by the use of expensive machinery. No individual farmer can produce anything like such good or such uniform butter or can produce butter so cheaply in his own farm as it can be produced by a creamery with its up-to-date methods and machinery and its skilled supervision. And up-to-date machinery is, of course, quite out of the reach of the ordinary farmer.

Now the essential principles of the co-operative creamery are applicable to Indian agriculture and industries. It would seem that there is a reasonable hope that for the preparation of certain kinds of produce for market, some similar method might be used with great effect. The ginning of cotton, the crushing of cane, the clearing of ground-nut, the hulling of paddy are all processes necessary for the preparation of the raw material for the world's markets; and each of these processes can best and most economically be done by the use of expensive machinery.

Burmese co-operators have taken the lead in this line of co-operative work, and they have already begun to undertake the preparation of produce for the market, and the pioneers of the Mahlaing Co-operative Ginnery and the Wethlagale Co-operative Paddy Mill deserve to be famous in Burmese co-operative history. In Bombay attempts are being made to organise Co-operative Cotton Ginning and Pressing Societies at the places where there are Cotton

Sale Societies; in Behar and Orissa there is a talk of starting co-operative oil and paddy mills. In the other provinces also the importance of this new line of co-operative work is being recognised, though no tangible results are as yet visible.

Agricultural Co-operative Purchase and Sale Societies : - In conclusion, we should note instances of a combination of the functions of purchase and sale by the same society: it supplies the members with their agricultural and domestic requirements and sells their produce on a low commission. Just as it is economically expedient for individual producers to combine into Purchase and Sale Societies for the satisfaction of their common needs and the joint sale of their produce, so it is for individual societies to join into a Provincial Agricultural Wholesale Society. Although it is too premature to hope for such a consummation, yet it is necessary for us to have a clear vision of the goal, so that all our efforts may be co-ordinated and directed towards its early realization: what we advocate, in fact, is the formation of a Provincial Agricultural Wholesale Society in every major province of India on the model of the Irish Agricultural Wholesale Society the object of which was similar to that of practically all co-operative trading federations *viz.*, to supply affiliated societies with the goods which they retailed to their members at rates as low as possible and to market their produce on a very low commission with a guarantee against bad debts. The business of the I. A. W. S. has expanded rapidly with the addition of a grocery department, a banking department, and various new trade departments, so that it is now a position to supply its members with practically everything that they can require, and also to market on a commission basis such agricultural produce as butter, eggs, honey etc. The Wholesale has been successful, among other things, in ensuring to the farmers a reduction of 50 per cent in the price of

guaranteed manures. It was the first body in Ireland to give a guarantee of purity and germination of its seed, and by this means it brought about something like a revolution in the seed trade of Ireland. It gives the lowest rates for reliable feeding stuffs, and also for up-to-date machinery, and carries a full stock of hardware, both agricultural and domestic. Finally, it performs the very useful function of marketing produce for the societies on a very low commission, with a guarantee against bad debts; and for this purpose it has representatives in the chief distributive centres of Great Britain. The Irish Agricultural Wholesale Society has revolutionised the conditions of agriculture in Ireland. If we start a similar society—of course after a sufficient number of primary and district agricultural purchase and sale societies has been started—with similar objects in each Indian province, we hope to see an all-round improvement of the Indian ryots' material conditions. The Departments of Agriculture and Co-operation in every province should combine their best energies to organise simultaneously primary and wholesale societies and thus hasten the day for a real agricultural renaissance in rural India. We contemplate the establishment of primary and secondary agricultural purchase and sale societies in every nook and corner of every province in India, helping each individual ryot in improving his seed, his manures, his plough, and his cattle, in increasing the yield of his crops, in introducing new crops, in standardising the quality of his crops and in disposing them of in the best market possible. We contemplate the establishment of Provincial Agricultural Wholesale Societies which will not only supply agricultural requisites and necessary goods and organise the sale of agricultural produce, but which will also, in time to come, undertake the production of those agricultural requisites and establish and own rice, jute and oil mills and manufactories. We have visions of Agricultural Wholesale

Societies in every province of India federated into a great all-India Agricultural Wholesale Society which will be the envy and the wonder of the world. The establishment of such an All-India Wholesale Society will enable India to play her part befittingly in the slowly evolving scheme of International Co-operative Trade. But oh ! how far are we yet from the realization of this dream !

Co-operative Dairy and Milk-supply Societies.—

The increasing difficulty in procuring pure milk and other dairy products at reasonable rates has brought the question of co-operative dairying into prominence. It is sometimes assumed in this country that what are needed to improve the city milk-supply are individuals or companies who will take up the matter on a large scale with modern appliances. It would be well to make clear the difference between dairy farming concerns which aim at producing their own supply of milk which they propose to put on the market themselves and those dairying or milk-supplying concerns which merely act as middlemen buying milk in the country and putting it on the town markets by improved methods. The production of milk by dairy farming concerns situated in a town or in its vicinity is not likely to be done so cheaply as it can be by the small cultivator. The most promising source of milk-supply for towns lies in the villages where cultivators keep their animals under natural and economical conditions. It is from such sources that an adequate supply of milk has been secured for the cities of other countries. The transport of milk is no doubt a difficult matter in hot countries, but it has been overcome in the United States of America ; and in this country for some time past pasteurised milk has been sent without difficulty from Poona to Bombay, a distance of 119 miles. It is only lack of organization that handicaps this branch of the industry.

The part which co-operative societies can undertake in

developing the dairying business is thus indicated in the following extract from the Report of the Committee appointed to consider measures for the improvement of the milk-supply in large cities in the Bombay Presidency :—

“ It is a matter of common knowledge that in other countries striking developments in the dairying business have been effected by the agency of co-operative societies, and we are of opinion that much progress may be made in this country by means of the same agency. In such matters as the financing of the milk producers, the joint purchase of feeding stuffs and the collection of small lots of milk, there is no doubt that a co-operative society can be of much use. There is evidence that a co-operative society can undertake on a small scale the marketing of its own milk in a neighbouring town where the distance is not great ; but doubts have been expressed whether a co-operative society is a suitable agency to undertake the more difficult task of handling milk for long transport or the work of retailing milk on a large scale, which demands a degree of care and activity not often found except where the retailer's personal interests are concerned. Co-operation cannot be regarded as a substitute for efficiency, and if efficiency is to be secured, the enterprise in each case must be large enough to afford the cost of capable management. The question how far co-operative societies should go in this matter, must, therefore, depend on the degree of efficiency which they can command and the question whether there are other agencies available to continue the work at the point at which they might feel disposed to leave it.”

It should be carefully borne in mind that an increase in the number of people or agencies who handle the milk in its transit from producer to consumer must bring about a corresponding increase in the price, and the secret of cheap milk lies in confining the profit as far as possible to

the producer. Another point that is to be borne in mind is that in Europe the principal problem in connection with the co-operative dairy is the introduction of co-operative methods in the production of butter, cream, cheese, etc ; whereas in India the chief problem connected with dairying is how to secure an improved milk-supply for large towns by preventing adulteration and contamination and also by increasing the amount available by improved breeding, by supplying fodder, and grazing facilities and generally by encouraging the better care of herds. Keeping these general principles in view we may now proceed to give a brief description of some important co-operative dairies or milk-supply societies working in various parts of this country.

The Benares Co-operative Dairy Society—A dairy on a limited liability basis was started in the suburbs of Benares about ten years ago. The members are 'ahirs,' or professional milk-sellers. There is a separate credit society on the unlimited liability basis for these members. The premises of the dairy are situated about 5 miles from the city of Benares. The dairy has got a fairly decent shed for the cattle and also for the stocking of feeding stuffs etc. The dairy society has rented shops in different parts of the city of Benares for the sale of milk and capital has been raised partly by shares and partly by loans from a public-spirited landholder and also from a central co-operative bank at Benares. The cattle belong to the members themselves who sell the milk at a fixed price to the society and the society sells the milk again at fixed cash price to purchasers at the different shops. This dairy did very good business at the beginning and made small profits every year. The supply, however, occasionally diminishes because of fodder famines and the consequent inadequate feeding of the cattle and the members are not able to repay the loans that are granted to them for the purchase of cattle and

are consequently debarred from getting fresh loans in substantial amounts to purchase new cattle. Motor transport has been considered, but could not be adopted because it has not been possible to guarantee a large minimum daily supply to make the use of a motor lorry remunerative

The Lucknow Baraf-khana Co-operative Dairy Society—
A second co-operative dairy—the Baraf-khana Co-operative Dairy Society—has been established on an unlimited liability basis at Lucknow a few years ago. The details about this society are given in an appendix to the Report of the Committee on Co-operation, from which it appears that the society had a membership of forty. As a qualification for membership applicants must be owners of milch cattle and carry on the business of the sale of milk and dairy produce in Lucknow. The Managing Committee consisted of 7 members, of whom four were elected by the members and three were nominated by the District Co-operative Bank, Lucknow, which finances the dairy. Among these latter was the Deputy Commissioner of Lucknow who was the *ex-officio* Chairman. Committee Meetings were held not less frequently than once a month. Every member of the society was required to take up at least one share and as many more, not exceeding 50, as the Committee might decide after considering his general position. Shares were of Rs. 20 each, payable by 20 equal half-yearly instalments.

The following were the main items constituting the working capital :—

Paid up share capital	...	...	Rs. 1494.
Loan from District Bank	...	...	Rs. 14,140
Loan from Lucknow Municipality			Rs. 6,000.
			<hr/>
			Rs. 21,634

As regards share capital 441 shares had been subscribed and were being paid up by half-yearly instalments. The loan

from the district bank was being repaid by monthly instalments as loans were being recovered from the members. The society was lent Rs. 6,000 by the Lucknow Municipality at 5 per cent repayable in 3 years for the construction of suitable buildings. Cash loans were granted to members at the rate of 15 per cent, chiefly for the purchase of milch cattle and fodder. Small loans were repayable by monthly instalments, and others according to their object and the condition of the borrower. The borrower was required to furnish two sureties and to sign a pro-note. Loans were ordinarily repaid punctually. The members bought and looked after their own cattle. They also bought their own fodder which was inspected by the Manager. In its corporate capacity the society had leased some pasture land in Lucknow itself for the use of the cattle kept in the dairy premises, and had also leased some pasture land in the Bahraich district to which dry cattle were sent. The Agricultural Department in conjunction with the Municipality was to have started a sullage farm in the neighbourhood, and to have sold fodder to the dairy at reasonable rates as soon as it became available.

The society in its corporate capacity had also secured a convenient site for the dairy near the civil station and cantonments, and had invested about Rs. 8,000 of its working capital in erecting (1) a dairy fitted with modern dairy appliances, together with an office room (2) two shops for the housing of the cattle, which numbered 214 and included cows, buffaloes, and calves, and (3) two rows of dwelling houses in which 32 of the members resided including both Mussalmans and Hindus. The cost of each house was debited as a loan to the member occupying it, and when the loan was recovered, the house would become the member's private property. It was proposed, as funds became available, to build (1) additional sheds for cattle (2) quarters for the Manager, and (3) a compound wall.

All animals were milked under the supervision of the

Manager. The milk was received direct in the dairy room at the rate of 11 seers per rupee. From there it was sold direct to the public at 8 seers per rupee as whole-milk, or at 12 annas a pound as butter or cream, or at 14 annas a pound as *ghee*. There were about 100 regular customers both European and Indian. The rate of sale approximated to the market rate as there was little demand for milk at a higher rate. The total receipts on account of sales between December 1913 and January 1915 amounted to Rs. 14,468. The milk was distributed personally by some of the members who were remunerated at the rate of 6 annas per house per month.

The society was one of unlimited liability. No dividends were to be paid on the shares of members for 10 years and after that period a dividend limited to 10 per cent would be admissible on fully paid-up shares. At the beginning all profits were carried to reserve fund, which on June 30th, 1914, amounted to Rs. 885. The profits for the following 7 months were Rs. 848. The reserve fund was used as part of the working capital of the society.

The staff consisted of (1) a manager on Rs. 35 who had visited some military dairies and been trained in co-operative work: he lived in the compound and supervised the whole institution, (2) a whole-time accountant on Rs. 10 per month, (3) a butter-maker on Rs. 9 per month, (4) 2 salesmen on Rs. 6 per month, (5) 1 bhisti on Rs. 3 per month, (6) 1 sweeper on Rs. 2-8-0 per month, (7) 1 chowkidar on Rs. 6 per month, and (8) about half a dozen members distributing milk at the rate mentioned above. The total cost of the staff was about Rs. 110 per month. The dairy, being at the headquarters of the Province of Oudh is fortunate in the amount of supervision which it receives. It is regularly inspected by the Honorary Manager of the District Bank, the Municipal Health Officer, the Sanitary Commissioner with Government, the Superintendent of the Civil Veterinary

Department, and the Officers and Staff of the Agricultural Department as well as by the Registrar. The Agricultural Department has put down a small silo in the compound to demonstrate the system of ensilage, and have presented a bull buffalo to the dairy. The Municipal Board has also given a bull to the institution. These two bulls serve only dairy cattle, and a record of their service is regularly maintained.

The Allahabad Co-operative Dairy Society :—In Allahabad there is a milk-selling society of which the members belong to three small hamlets close to the civil station. There are separate credit societies in these hamlets which are open to the members of the milk society as well as to the other residents. The milk society has got a shop and compound where the owners bring their cattle twice every day. The milking is done in the presence of the manager and the milk is immediately sold to the purchasers. The members here, as in the above case, supply milk to the society at a fixed rate. This society has been going for the last six years. Its organization is simple and the costs of contingencies and establishment are kept as low as possible.

In Bombay Presidency a few co-operative dairy societies are already at work and the formation of others is in contemplation.

The Alibag Co-operative Dairy Society was registered on the 2nd of April, 1915. Its number of members is 35 of whom 28 are cultivators producing milk and marketing it through the society. The milk is obtained from the villages, Veshwi and Mula, which are at a distance of two miles from the town of Alibag. The Society has put up two milking sheds at a cost of Rs. 340 - one at Veshwi and the other at Mula. The members keep their animals in their own houses, but bring them to the Society's milking sheds twice a day at the appointed hours in which they milk them under the supervision of the representatives of the Managing Committee. The work

of supervision is done at Veshwi by the clerk of the Society and at Mula by a member of the Managing Committee. The Society keeps its own milking pails, and one is given to each member for drawing the milk of his animals into it. The milk thus drawn is measured and handed over to the Society. Each member carries a pass book with him, in which the quantities supplied by him to the Society are regularly entered. All milk thus collected at each centre is put in a big brass can, which is locked and sent to the town on headload with a servant of the Society for delivery to registered customers. All the pails, cans and other utensils of the Society are kept in a perfectly clean condition. Every utensil used in handling milk is first washed in cold water, then in warm water with some washing soda in it and finally in boiling water and dried. Before milk is drawn from the animals, the hands of the drawer and the udders of the animals are washed and rubbed with muslin. Bar-soap is kept and freely used. The total number of customers was 76 ; and the total quantity of milk supplied to them in September 1915 was 2,700 seers. All milk taken by the Society from the members is distributed to customers and no surplus is left on hand.

The Society takes milk from the members at a little over nine seers a rupee and supplies it at eight seers a rupee to the customers. After deducting expenses, a small margin of profit (about Rs. 6) is left to the Society. The members are prevented from adulterating their milk with water, and yet they get good prices and save a good deal of time, which they used to spend before joining the Society, in hawking about their milk. They are entirely satisfied with the prices which they now get. Besides, they get loans from the society at $9\frac{1}{2}$ per cent. for purchasing animals and foodstuffs. The public of Alibag are fully satisfied with the quality and the price of the society's milk. The society is now arranging to keep a good buffalo breeding bull for

serving the members' she-buffaloes. It has also secured some grazing land from the Collector for the use of the members' she-buffaloes, which, with the bull proposed to be obtained from Gujerat, are to be constituted into a herd.

The Belgaum Co-operative Dairy Society consists of 24 members, of whom 20 are milk-producing *goalas* who supply their milk to the Society. The *goalas* at present keep their animals in the town and bring them to two milking centres for milking them under the supervision of the manager. The arrangements as regards cleanliness and the collection, transport and distribution of milk are similar to those of the Alibag Dairy Society. The Society has applied to the Municipality for building a shed outside the town for housing the animals of the members of the Society. The Belgaum Dairy Society market about 3,500 seers of milk a month. The public of Belgaum are entirely satisfied with the quality and price of the milk.

The Thana Co-operative Dairy Society has got a shed in which some animals of the members are kept ; other members keep the animals in small huts near the society's shed. Milk is drawn in the presence of the manager. The arrangements as regards cleanliness and transporting and distributing milk are exactly on the lines of the Alibag Society. The total quantity of milk marketed by the society every month is about 6,000 seers. The Thana people are fully satisfied with the quality of the milk. In this society, some of the producing members are *goalas* and others *non-goalas*. The society has got more than 200 families as its customers.

The Dairy Societies of Bihar and Orissa have not proved successful so far. One cause of the failure of these societies is the inadequacy of the milk-supply. For their success it is essential that there should be a steady and sufficient supply of milk, which requires a large number of well-bred cattle. But the greater cause is the want of loyalty

amongst the members. Capital for increasing the number of good milch cows can be found, but loyalty is far less readily available and is of extremely slow growth in a community which has for generations believed in the enriching qualities of adulteration. In Rohika area, 3 cream separators are owned by individual members. Creameries started experimentally by the Dabhari and Lachmipur Guarantee Unions in the Supaul area worked satisfactorily till January, 1921, but had to be suspended on account of the quality and quantity of the milk available. The Dairy society in Barh suffered a loss of Rs. 583 and the Sambalpur Dairy society a loss of Rs. 282. The Mayaganj Goala society though working at a profit has not shown any decided improvement. It made a net profit of Rs. 287 during the year.

In the Central Provinces we have a very successful co-operative dairy in the Telinkheri Co-operative Dairy* at Nagpur which controls both the production and the distribution of the milk. The herd maintained on the farm attached to the dairy consisted (in 1918) of 338 milch animals of which 62 belonged to Government and 276 † to the two co-operative societies of *gorwalias* which work in conjunction with the Dairy: in addition to milch cattle there were 165 head of young stock. The statement below shows the quantity (in lbs.) of milk, butter, cream and *ghi* distributed during a period of three years:—

		1914-15	1915-16	1916-17
Milk	...	220,754	300,714	267,384
Butter	...	2,240	3,130	3,328
Cream	...	817	979	825
<i>Ghi</i> ...	...	.....	770	1,650

* Agricultural Journal of India, Vol. XIII, No. 1, p. 57.

† According to the C. P. Co-operative Registrar's Report for 1920-21, however, the members own a mixed herd of 1 milch animals.

The profits made by the two societies in one year amounted to Rs. 5,901. The Government breed on the Telinkheri Farm is maintained for two reasons: (1) as a nucleus herd on which the dairy can rely for at least a small yield of milk daily; (2) as an improved herd for the breeding of bulls of good milch strains for the use of the *gowlies*. The milking, both of the Government herd and of the societies' cattle, is done under the supervision of the Overseer of the Dairy Farm assisted by one *kamdar* and three *chowkidars*. The members of the two societies milk their own cattle and get it weighed by the Farm Overseer who sends it on to the dairy. The milk is delivered either in bottles or in brass vessels, fitted with a tap, from which the quantity required by each customer is run off. Short distance customers are served with milk in bottles brought round in small hand-carts, while those who live farther away and institutions requiring milk in large quantities receive it, from sealed brass vessels carried on coolies' head: for quicker service motor transport arrangements are in progress. The rapid success of the Telinkheri Dairy is largely due to the following facts—(1) it is situated in the open country amid sanitary surroundings, and is connected with Nagpur by first-class roads; (2) the shed being on a hill the site is a dry one; (3) the Telinkheri tank affords an excellent supply of drinking water in the grazing area itself; this water is also used for the production of irrigated crops for the dairy cattle; (4) there is ample land on the dairy farm for the production of irrigated and other fodder. The Telinkheri Dairy has added greatly to the amenities of life at Nagpur and has served another very useful purpose in demonstrating what can be done in the way of developing dairying in the Central Provinces on co-operative lines.

The Baraset Milk Societies' Union:—In a paper read before the Bombay Provincial Co-operative Conference in

1917, Dr. Harold Mann insisted that, so far as milk-supply from villages was concerned the first co-operative movement should be "as organizer of the collection and conveyance of the milk to the customers, be they wholesale or retail, in the city." The Baraset Milk Societies near Calcutta, composed mainly of cultivators with whom cow-keeping is a secondary occupation, exemplify such an attempt to secure an improved milk-supply for the city of Calcutta from the surrounding villages. At the end of June 1918, six such societies were formed with a total membership of 201 who sold milk worth Rs. 8, 737 ; the initial difficulty was the high cost of management due to the societies' refusal to combine : each society sent a man with its milk to Calcutta and thus six men travelled daily where one man would have sufficed. Within two years *i.e.* at the close of June, 1920, as many as 40 societies were registered, with 1,629 members, supplying on an average from 42 to 52 maunds of milk to Calcutta. Meanwhile a Milk Societies' Union had been formed to facilitate the transportation of milk to Calcutta. The Union has, among other contracts, the contracts for the Medical College Hospital, the Mayo Hospital and the Belgachia Hospital. The Government of Bengal have granted a loan of Rs 14,000 at 6 per cent to the Milk Union for the purchase of motor lorries : the Union repays the loan by *kists* of Rs1,200 *plus* interest per quarter. The Government staff placed at the disposal of the Union consists of one Inspector and five Supervisors who are concerned principally with inspection and propaganda work and a trained Veterinary Assistant Surgeon who gives instruction in the hygiene of milk and in simple veterinary science in the villages.

The milk is brought under seal in locked cans to Calcutta where there is a duplicate key : it is tested by the society before despatch and on arrival in Calcutta. Stalls have been opened in the principal markets of Calcutta where the muni-

cipal authorities test the milk thoroughly and, if satisfied, certify it as pure. Already these societies have come to be realised as of great importance in connection with the milk supply of Calcutta. Sometime ago when the milk-sellers in the markets approached the Calcutta Corporation for permission to raise the price of milk to 6 annas a seer, the Chairman of the Corporation consulted the Milk Union and was informed that it was selling most of its milk at less than 4 annas a seer and making a profit on it. In the rains the supply of milk falls off and the Union finds it extremely difficult to meet its contracts : indeed during the year 1920-21 it looked as if the Union would fail. Towards the end of the rains epidemics started among the cattle, a sudden decrease of the supply ensued and the daily total, which had been nearly 50 maunds, fell to 12 or 13 maunds. The Milk Union was unable to meet its contracts from the societies' supplies, and it was compelled to purchase milk at Calcutta at high rates : in spite of the high price, the milk purchased was frequently bad, and the good name of the Union, and its societies which it had taken four years to create, was ruined in a single month. The epidemics began, however, to abate as the newly appointed Veterinary officer began to make his presence felt in the area. Outside purchases were gradually stopped until the total again exceeded 30 maunds by February or March, 1921. The lesson thus learnt has been a costly one : it has taught the Union the necessity of taking proper precautions such as—

(1) The organization of more societies just before the rains, to ensure that the supply of milk which always falls off in the rains, would remain sufficiently large to meet all contracts entered into by the Union.

(2) The financing of members of the existing societies, to enable them to get more cows in milk during the rains, with the same object in view as in (1)

(3) The formation of societies in other areas in order to minimise the dangers from epidemics in the existing area.

Considerable sums of money have been advanced by societies to members for the purchase of cows. In five months or less a cow produces its own price in milk. The members themselves supply half the price of the cows and the societies advance the other half to be repaid in about three months. By these advances the societies have not only improved the quality of the milk, but also have actually increased the supply. The members of societies now get fully one rupee a maund more from their milk than they used to get from the middlemen *goalas*. Two societies combined and bought a bull from Pusa, and other societies propose to follow their example. It has similarly been proposed to invest some of the reserve funds in the purchase of good cows to be the property of the Societies and of the Union, and not of any individual, and to demonstrate, if possible, by this means, that it will pay to keep good cows and feed them properly.

The working of these milk societies has clearly demonstrated—

- (a) that the productivity per member has risen in less than three years from '9 seer to 1'5 seer : in other words by bringing these men into co-operative societies we have got them to increase the supply of milk they sent to Calcutta by 66 per cent ;
- (b) that the cow can become more profitable to the owner and therefore deserving of better food and better care ; that better food and better care still further enhance the profit the cow can bring, and that it is possible to effect a continuing and increasing improvement in the cow which supplies our milk.
- (c) that, by the system of sealed cans, it is possible to keep dirty water out of the milk ; that by the cleaner methods of transport and by the steriliza-

tion of cans and the introduction of better cans, it has been possible to exclude millions of bacteria to the centimetre.

- (d) that the societies can teach their members the rudiments of the hygiene of milk and induce them to be cleaner in dealing with their cows.

In a paper on "Co-operation and the Milk-supply of Calcutta" read by Mr. J. T. Donovan, he draws certain conclusions from his experience as to the future of the milk-supply of Calcutta. "Our first conclusion," he says, "is that the only chance of providing a plentiful and pure supply of milk for Calcutta at a reasonable price lies in a system of co-operative societies which will give the full benefits of their industry to the owners of cows. I do not deny that you can produce otherwise a limited but comparatively expensive supply, but I am concerned with a large supply of reasonably cheap milk within the reach of all. Even in European countries where rich pasture is more plentiful it has been found that the co-operative is the best system of dealing with milk. This means that even in European countries there is no room for an unnecessary middleman between the producer and consumer of milk, for it is practically only in the milk business that eminent authorities on co-operation recommend producers on a large scale to undertake retail business. The first advantage of the system is that it gives much more to the producer without increasing the cost to the consumer and therefore encourages the producer, who in Bengal requires a lot of encouragement, to continue this hitherto comparatively profitless industry. Again co-operative milk supply societies are much more easily controlled. They are, as co-operative societies, subject to a certain control under the Co-operative Societies Act. Apart from this, however, it is obviously far easier to exercise municipal control over organizations of

this nature than over innumerable *goalas*. Besides a peculiarity of co-operative societies generally is the respect for law and order which they inculcate and milk societies are no exception. The existing societies here have gone out of their way to collaborate with the municipal authorities to ensure quality. They invite control, examination, analysis. The co-operative milk society pays for quality as well as quantity and it further makes it the interest of every society and of every member of every society to see that each member keeps up the quality of his milk. As soon as the societies become strong enough, and they rapidly do so, they deal mercilessly with any member who does not come up to the standard of quality. He goes out of the society and he will have no place else to go to. Similarly the Union of societies—their Wholesale if you like to call it so—will expel a society that fails in quality and the milk of that village becomes useless to its owners. A system of competing buyers would never bring this about. The members by joining a society and the society by joining the Union submit themselves to be dealt with in this way. They burn their boats, as it were, and if they did not intend to act up to the standard required they would not do so. They do so of course because it pays them. The co-operative system not only makes for better quality but since it returns all the profits to the members in proportion to the supply by each it stimulates increased production."

Ghee Societies :—In some provinces—specially in the United Provinces—several Ghee societies have been started : their work has been entirely separated from the credit work done by village societies. The members of *Ghee Societies* are also cultivators and are more amenable to reason. There is much less risk in the *ghee* business as the product is not as perishable.

Co-operative Dairies in Denmark.*—Most of the Co-operative Dairies in Denmark were founded between 1886 and 1890. In 1909, 1157 Co-operative Dairies were at work in Denmark, and they treated about 77% of the total milk production of the country.

The number of cows at the disposal of the societies varies from 200 to 2,000, but most usually from 800 to 1,200. According to the industrial census of 1906 the average quantity of whole milk received by a society was 2,100,000kg. for an average number of about 880 cows. In recent years, large co-operative societies have often been sub-divided to form smaller societies, though the latter have comparatively high working expenses, and can only with difficulty equip themselves in modern style. They are often obliged, for example, to employ ice safes instead of refrigerators. In an economic sense there is no justification for this sub-division, but the farmers want to have their milk returned to them as soon as possible, which is a quite legitimate desire, above all in the case of those who live at the greatest distances, who are subjected to the double inconvenience of having to deliver their milk earliest, and have it returned latest. At times a certain local patriotism manifests itself, and when business is good, the surplus expense is readily met. These sub-divisions, however, have not been in proportion to the increase of the milk received by the societies, which is due to the increase in the number of cows and the increased production per cow.

A co-operative dairy is generally founded for a definite period of time, varying from 10 to 15 years. During this period, the farmers engage to supply all the milk they produce, except what is consumed on their farms or sold retail to their neighbours. They recognise themselves

* Being extracts from an article in the *Monthly Bulletin of Economic and Social Intelligence* Rome November, 1915.

also as jointly and severally liable for the engagements of the society, on the principle, "all for each and each for all," in proportion to the number of cows they each possess.

On this basis, the funds required are generally raised by means of a loan from a bank or savings bank, so that the members need pay no contribution. Interest and sinking fund are paid out of the profits of the business. The initial capital is generally from about 30 to 40 crs. per cow.

The members can only be relieved of their joint and several liability before the expiration of the term fixed for dissolution of the society, in case of death or the sale of their holdings, or by vote of the General Meeting. At the end of the period fixed, a new society may be formed for a new period, to include all the old members or only such as desire it. For the purchase of the dairy from the former members, a new loan is contracted, the amount being distributed among the producers in proportion to the quantity of milk supplied by each, in the whole period of working. The period for which the members engage varies generally between 10 and 15 years. In recent times, however, there has been observable a strong disposition to reduce this period to 5 years.

The supreme authority in the business of the society is the General Meeting, which is, as a rule, only called once in six months. The rules often provide that the decisions of the General Meeting cannot be impugned in a court of law, a provision which has the force of law. The members have almost always the same voting rights, irrespective of the number of cows they possess. For this reason, the large landholders long hesitated before entering the co-operative societies; but now they feel no difficulty about entering, and independent dairies on gentlemen's estates are becoming, so we have said, rarer and rarer.

The Board of Management of the Society deals with the daily business, the book-keeping, the cash, the administrative supervision, etc. ; it is generally appointed for two years, and is often rather numerous, for it is usual for each member of the Board to make the monthly payments to the members of his district ; so it is natural that each clearly defined geographical district should desire to have a representative on the Board. The Board appoints the Technical Manager who is entrusted with the direction of the daily work of the dairy, and the keeping of the accounts. Formerly, all the rest of the staff were also, as a rule, appointed by the Board ; but this was found inadvisable. The technical manager now receives a fixed amount with which he must provide himself with the assistance he requires. This system has proved the best possible.

The dairy undertakes the collection of the milk, and its return to the producers. In this way the producers who live further away do not pay more for the carriage of the milk than those near at hand. This procedure contributes greatly to the maintenance of good relations between the various members, and is assuredly also a reasonable system, for the situation of the dairy is often accidentally determined, and any sub-division of the society would in any case be contrary to the interest of those who live nearest.

As a rule, the dairy only supplies and keeps in good order vehicles suited for the transport of milk ; tenders are invited for the contract for transport itself, for periods of one year or six months. In this way, the dairy has not to keep horses.

The vehicles generally make one journey a day, and only in certain localities two, keeping to a fixed itinerary, and the producers are bound to bring their milk early to the road, so that they may go on again without delay. Producers who do not live on the road followed by the vehicle generally

receive a certain sum in compensation for every 1,000 kg. of milk they supply. However, the route is so arranged as to serve the large producers directly. The vehicles must reach the dairy in a fixed order, at hours established, so that the milk may be weighed and separated as rapidly as possible, without interruption and useless delay, and each, as the work proceeds, must be ready to start again to return the separated milk and whey to the producers. When the profits are divided, it is a fundamental rule that the division shall be in proportion to the amount of milk supplied. At first this division was made after a very imperfect fashion, and in some places this continued for a long time; it was based only on weight and not on the amount of butter fat in the milk. This was a matter of specially great importance, above all, for the numerous small producers owning few cows, in whose case the amount of butter fat in their milk might vary within very wide limits.

This was one of the first problems science had to deal with, and it was promptly solved, by the construction of an apparatus which allowed of the amount of cream in a large number of samples of milk being determined by means of a single observation. Most of the dairies then began to calculate the value of the whole milk supplied in accordance with the amount of cream or butter, on the basis of the current price of butter. This method, very good and reasonable in itself, which possesses the advantage of preventing any adulteration, has also a great merit which will only be greater in the future, as it draws attention to the advisability of only rearing cows which give rich milk, and of exercising quite special care in the selection of good bulls. This method has also inspired the constitution of "Control" Societies, which, in their turn, have favoured the change to the new system of distribution of profits. The latter system is in use in almost all the co-operative dairies, whilst most of

the old dairies worked in common have remained faithful to the old system.

The calculation of the value of the milk is based on the regular control of the milk of the various producers, generally tested twice a week ; however, the distribution is effected, according to various methods, more or less accurate and complete. The simplest process, which has fairly recently been introduced and has become widespread on account of its simplicity, is to multiply the weight in pounds of the milk by the percentage of cream ascertained, and distribute the price of the butter in direct proportion to the number of what it has been agreed to call "cream units" thus arrived at.

In this way, it is only necessary to divide the amount the whole milk has yielded in butter produced and milk sold ; payment is made once a month. As regards the separated milk and whey the dairy does not sell, and does not use for cheese-making, but the producers are bound to take back, the value is ascertained quite differently. The milk is returned in proportion (up to a certain point) to the whole milk supplied, at a given price, which is very low, and which, while in some degree corresponding with its value as food for cattle, does not take special account of that, and is calculated so as amply to cover the working expenses of the dairy. Generally, the price is calculated so as to leave a large margin of profit. This is distributed annually or half yearly according to the same rules as govern the sale of the butter.

The separated milk and whey are paid for by means of deductions from the monthly contributions. Deductions are also made for butter and cheese bought by the producers at the dairy, as well as for expenses the dairy has been put to for the account of the producers as, for example, the tinning of the cans used for carrying the milk. In dairies which also

engage in the co-operative sale of cattle foods, a practice which may be regarded as generally diffused, there is a further provision that the department for co-operative sale of cattle foods may, if the producers of the society are debtors up to a certain amount for the purchase of cattle foods, keep back the whole or part of the price of the milk or the surplus profit.

The rules of the dairy provide that its members shall only supply pure and natural milk and never supply milk from sick cows or from those that have too lately calved. Often also the employment of certain kinds of cattle foods, known to have a deleterious effect on the quality of the milk, is forbidden. In several districts the milk supplied by each farmer is analysed at regular dates, for example, once a week or once a fortnight. The "societies for the estimation of the value of the milk" have shown great activity in extending this system. One or more local or itinerant experts are charged to give their estimate. The result is expressed, by means of a series of points, in certificates of three different classes. This result is communicated to the producers in the monthly statement of their accounts. This urges them to correct possible defects in their production, and to furnish milk of the best possible quality; and the effect obtained is the more certain as it is almost impossible to prevent the result of the judgment becoming known to the neighbours. It has been found that, where this system has been adopted, the quality of the milk has considerably improved, and this improvement disappears at once when the system is abandoned.

This system has still difficulties to overcome; it is not easy, for example, to prevent the judgment passed on the milk, more or less formally, from having the appearance of personal criticism and giving rise to ill feeling which in several localities has led to disagreeable consequences. It is easy for the technical manager of the dairy, in weighing the

milk of the various producers to discover the grosser defects, such as an insufficient supply of cans, sometimes rusty cans, dirty or malodorous milk, etc. His task has recently been considerably facilitated by the fact that the milk is now poured into special receptacles in order to be weighed, whilst formerly it was weighed in the cans, the weight of which had afterwards to be deducted. When gross faults of the above kind have been discovered, the suppliers are at once informed, and invited to amend them without delay. Often, a communication of this character is made by letter, or by a note pasted on the can, when the separated milk is returned. Of course milk not suitable for the purpose is in no case accepted for the making of butter ; in the most serious cases, or when remonstrances have been ineffectual, the Board of Management has the right to suspend the producer from membership of the society for a time or permanently to expel him ; but generally a warning suffices to prevent the repetition of the offence for a long time, even in the case of the least conscientious producers.

Attempt has been made to introduce a principle by means of which a certain price may be assigned to milk of a certain quality, but it has not been possible to get it accepted. It is extremely difficult and often impossible to establish a fixed and permanent relation between the quality of the milk and its value for the production of butter. On the other hand, in certain localities a whole system of fines has been introduced, by means of which producers supplying specially bad milk are paid reduced prices for a certain time, or until there is a real improvement.

As security for their various interests and common work, several leagues have been formed among the co-operative dairies. The co-operative movement in Denmark has produced a large number of these leagues, as the organisation is founded on the principle of the division of labour, which

aims at assigning as far as possible each special and definite function to a special association. In accordance with this principle, no single central organisation is to be found in the field of dairy industry, but, in its place, we see a whole series of organisations enjoying equal rights, closely associated, but at the same time completely independent of one another in their work.

We shall now only summarise in a few words the principal duties of these Central Societies, showing their number and their importance and consider more in detail a special institution.

(1) As regards the co-operative sale of dairy produce, there is a series of societies for the export of butter, formed among federated dairies engaging to sell the butter they wish to export through the medium of the society in question, and to accept joint and several liability in regard to the production of butter. In general, non-co-operative dairies may also be members of these societies. The first such society was founded in 1888. Now there are six, in various districts of the country; they associate 275 dairies and the total annual business done by them is about 43,000,000 crs.

(2) As regards the co-operative purchase of dairy machinery and other industrial apparatus, 175 dairies united in 1901 to form the "Co-operative Society for Purchase and Manufacture of Machinery for Danish Dairies." The society has 20 sections, and 851 dairies are now affiliated to it. The total annual business done by it is about 2,200,000 crs., half in connection with the manufacture of machines and half in connection with co-operative purchase. The members of the society are in no way obliged to make purchases. The society was at first only a co-operative society for the purchase of ordinary articles of trade; but it soon began to occupy itself with the purchase of dairy machinery requiring

to be specially fitted up and a workshop for the purpose, and began actively to manufacture the machines themselves. This was arranged by taking over the succession to a former private, well-organised business, the former proprietor of which was appointed technical manager, which assured the society, from the start, of the necessary administrative and technical competence. The society could thus be placed on a footing of equality with competitors at home and abroad, and fulfil the task it has assigned to itself, consisting not so much in manufacturing the best machines and implements as in directing the business on healthy and honourable lines, at the same time avoiding all the various costs of advertisement, travellers, etc., that the competition of private undertakings necessitates.

(3) The dairy societies occupy themselves with the encouragement of the dairy industry, both from the technical and the economic point of view, and especially with the protection of the interests of the industry abroad. Their activity and efficacy, on which for the moment we shall not insist, is guided by the representatives of the dairies concerned. Most of the dairy associations were founded between 1890 and 1900 ; to-day there are altogether 21, with a total of 1,128 affiliated dairies. The local societies have federated and formed three provincial associations for the three chief regions of the country, and have also become affiliated to the "General Organisation of Danish Dairy Societies." This organisation occupies itself with business of general interest, such as the answers to be given to questions eventually put by the legislative authorities or the Government, in regard to the laws and regulations relating to the dairy industry and represents the interests of that industry with third parties. This central organisation has also other important functions relating to farming statistics and statistics of prices of butter, butter quotations, etc. The presidential office of these bodies

is composed of the managers of the three provincial associations above mentioned, and four members appointed by the Committee of Representatives ; each local dairy society appoints a representative for every 20 members, and he has a seat on the Committee. The Committee of Representatives is invested with supreme authority and elects the President of the Organisation.

The Dairy Associations must not be confused with the Association of the Technical Dairy Managers, which is a league of the Technical Managers and their assistants. Its organisation is similar, as it has provincial sections and a sphere of action coinciding in part with that of the dairy associations and on many occasions has collaborated with the dairy associations.

(4) Sometimes independently, sometimes in dependence on the dairy associations, the associations for the estimation of the value of milk perform the work already described. There are 14 of them, affiliating 258 dairies.

(5) As a central independent organisation of several sections of the Technical Dairy Manager's Association and as a special local union of dairies, we have the committee for co-operative experiments with a view to the manufacture of cheese. This committee proposes to direct experiments in cheese-making and cheese-shows, the object of which is—on the basis of accurate reports, presented by the various dairies, in regard to the methods adopted in cheese-making and its preservation in cellars—to decide what may be the most suitable means for improving the production, taking especially into consideration the general judgment passed on the produce obtained. This committee has a member for each local section represented. Each member organises the shows in his section and, for the purpose of judgment, two experts are attached to him, appointed permanently for all the sections generally.

(6) On the promulgation in 1898 of the law on accident insurance, obliging the dairies, as industrial undertakings, to pay compensation to their employees in case of accident, they formed their own accident insurance society, afterwards so enlarged as now to take in all agricultural businesses subject by the law to insurance, and even voluntary insurance societies. The dairy section of this association now includes 1,311 dairies.

Finally, the dairies are represented by the provincial unions of dairy associations on the Central Co-operative Committee of Denmark, the central organ representing the Unions of Danish Co-operative Undertakings, the duty of which is to promote the action of the societies, and strengthen their position both at home and in foreign relations, in harmony with the international co-operative movement.

Cattle-rearing or Cattle-breeding Societies in Switzerland* :—

Switzerland is the home of Cattle-rearing Societies of which there are now about a thousand.

The objects of co-operative societies for cattle-rearing in Switzerland are—

- (1) the selection and proper maintenance of the best bulls ;
- (2) the selection and marking of the best cows and heifers ;
- (3) the systematic maintenance of animals for breeding purpose, and the proper rearing of their calves ;
- (4) the regular keeping of a Herd book with correct particulars as to the pedigree of animals ;
- (5) enquiry as to the capacity of productions ;

* Being extracts from an article in the *International Review of Agricultural Economics*, Rome, January, 1916.

- (6) the encouragement and facilitation of the sale of cattle for breeding purposes, and the protection of the interests involved ;
- (7) the exchange of information among the members of the society as to question of breeding and feeding.

Some particulars may now be given as to the foundation, the constitution and the work of a co-operative cattle-rearing society.

The society is founded by a certain number of agriculturists or breeders of the same neighbourhood or of adjoining districts, who subscribe to the bye-laws.

The capital required for the purchase of a bull is generally collected by means of a quota of from 20 to 100 francs per head. The association comprises the general body of members, a President's Committee composed of from three to seven members, a Committee of Experts or Valuers and a Committee for the Examination of the Accounts. The secretary of the society usually keeps the Herd-book and is nearly always one of the President's Committee. The Committee of Experts is generally composed of three members who may be all or in part elected from among the members of the President's committee. The share capital may be formed out of subscriptions and premiums paid by members joining the society, later, from fees for animals entered in the Herd-book (one or two francs per head), from prizes gained by bulls belonging to the society, and from contributions from the state and the commune. The co-operative societies do not aim at making large profits, but they often endeavour, more especially the larger and older societies, to form a reserve fund to meet any eventuality. Members are not responsible for engagements made by the Co-operative Society to which they belong : it must fulfil them exclusively with its own capital. Since 1910 the Swiss Con-

federation has shared the cost of establishing co-operative cattle-rearing societies, granting to them sums of from 100 to 300 francs. The amount of the contribution depends on the quality of the cattle, and more especially of the bulls belonging to the society, as well as on the correct keeping of the Herd-book.

Individual co-operative societies vary much in importance ; as a rule the number of members is from 10 to 50, but in exceptional cases there are 60 and even 100. The number of animals entered in the books varies from 30 to 100, sometimes even to 200 and more. The territory of a society may include one or more communes and extend even over a whole valley.

The choice of sires from among cattle belonging to members is made by the above-mentioned committee of experts solely from among animals of pure breed and of the proper age. This committee also buys bulls for the society and decides, generally only provisionally, as to the acceptance and entry of cows and heifers in the Herd-books. Their definite acceptance is in most cases made by the cantonal examining commission, which every year revises the assets of the society. Animals to be entered are marked on the left horn with the mark of the society and a progressive number. Should the animal be sold to any person not belonging to the society, or to a butcher, its name is erased from the Herd-book. This must be done also, should the animal prove to be of inferior quality or of insufficient reproductive power. The bulls are chosen with the utmost care. The societies as a rule keep bulls which have certificates for service. A bull belonging to the society must not only possess beauty of form and have proved reproductive capacity, but must also be of a good breed and give reasonable expectation that its good qualities will be transmitted to its descendants. The questions both of descendants and pedigree are of great importance in the selection of bulls. The

co-operative societies generally buy only those bulls acknowledged to be the best, and therefore the prices paid are considerable, sometimes 4,000 or 5,000 francs and even more. It often happens that one bull is not sufficient for the larger co-operative societies which are sometimes obliged to buy a second or even a third, though others limit themselves to one, which they hire. In this case a regular contract is made by which members possessing bulls of good breed agree to put them at the disposal of other members on payment of a fixed sum by the society. Bulls thus hired are entered in the Herd-book of the society.

Cows and heifers are not entered in the books unless they are of good breed. Since the intervention of Government has made itself felt in the breeding of cattle, every animal must be examined, according to a uniform system (classification by marks, highest number 100). In this way a certain uniformity is obtained in the acceptance of cattle, and now the only difference is as regards the minimum number of marks necessary for entry in the books. In consequence of the improvement in the quality of the animals the minimum has been raised and the examinations are more strict.

Co-operative societies for cattle-rearing have also brought about an improvement in the management of the animals. The society generally entrusts its own bulls to the care of one of its members who signs a regular contract by which he engages to feed and take care of the animal for a certain sum as compensation. There are special rules laid down by the society for the management, feeding and hiring out of the bulls. Besides fodder (hay and sometimes fresh grass) bulls should also have a certain quantity of more substantial food, under the form of bran, and specially ground oats. For cows and heifers there are common pastures. Alpine co-operative societies have mountain pastures to which they can send the animals for the summer months. The societies

of the valleys are now continually endeavouring to buy or hire mountain pastures for the cattle of their members, for the beneficial effect of a summer in the mountains on the health and development of the animals, especially of the younger ones, is well-known. It will be seen that owing to the co-operative societies much progress has been made in the breeding and management of cattle. The calves are more scientifically fed, receiving sufficient whole milk for a much longer time, and substantial food as they grow older. They are prepared for the mountain pastures by having full liberty in fields adapted to their needs. The development of the animals is encouraged and protected by sound methods, too early breeding being avoided. The co-operative societies have also undoubtedly contributed to encourage the breeders to perfect themselves by mutual instruction and good example.

These societies have always made a point of requiring a regular registration of cattle and in this respect they are worthy of all praise, for breeding could have no durable result without a precise knowledge of the pedigree of the animals, and thus a carefully kept Herd-book is indispensable. The Swiss Department of Agriculture gives precise and minute directions as to the keeping of these books, so that the system is uniform throughout all the cattle-rearing territory.

Private Herd-books, without official character, are of little importance now that co-operative cattle-breeding societies are widely diffused.

The society's registers comprise the following books, principal and secondary.

The Herd-book properly so called, divided into two parts, one for bulls, the other for cows and heifers ;

The Register of Admission ;

The Stall-Book ;

The Service Certificates ;

The Register of Service Certificates ;

- The Register of Births ;
- The Certificate of sale, etc ;
- The Register of young Animals ;
- The Extract from the Herd-book.

As already stated the animals to be entered in the books of the society must be marked on the left horn. In the Register of Admission the name and age of the animal and the name of its proprietor etc. must be entered, and from these particulars the regular entry in the Herd-book is made. For the exact keeping of the Herd-book, the Stall-book is of great importance ; it must be kept ready for reference by every owner of a bull. In this book must be entered in chronological order all the services of the bull, also its name, number, and countersign or metal token, and the age of the cow and the name of her owner. From the Stall-book these particulars are taken for entry in the Herd-book in which births must also be registered when duly announced by the owner of the calves. If a member should hire a bull other than that belonging to the society he must inform the society by sending in the Service Certificate. When a bull is sold, the owner must give notice to the society by means of a special certificate of sale. Note of this must be made in the Herd-book in which there is a space for entering the pedigree, the measurements, the classification of the points, and the reproductive capacity.

An essential part of the Herd-book is that which contains the certificates of service given by the federation. Since 1891 the Swiss Department of Agriculture distributes to cattle owners the best bulls selected according to the Service Registers. The certificates are numbered, and contain the name, number, countersign and generally the pedigree of the bull. Cows and heifers also receive Service Certificates containing the name and address of the owner, the name, age and marks (number and countersign), the metal token

(number and entry), and colour of the bull. The certificate holds good for four services, and bears the date of its issue and the signature of the writer (either the keeper of the bull or the keeper of the Herd-book). Another essential part of the certificate is the entry of the birth with the pedigree of the mother, the day of the birth, the name of the calf, the number and the entry of the mark on the ear and the date, also the signature of the registrar.

The calves of such bulls and cows themselves, destined for breeding purposes must bear on the right-ear the federal mark placed there by men duly appointed. The owner of the animal must confirm the birth and pedigree of the calf before the Registrar calling two witnesses as prescribed by law. The registrars are appointed by district Government officers and must be persons worthy of trust, if not the district veterinary surgeons.

The respective cantons must supervise the keeping of the registers of service certificates. The registers are submitted in June of every year to the Swiss Department of Agriculture. Such registers are now in use all over Switzerland but more especially in those cantons where the Brown breed prevails. Since they were introduced and the consequent marking of calves with the federal metal token, the pedigree of the animals is securely established. Such a guarantee is daily required in commercial transactions, offering as it does, a means of identifying the animal much more precisely and surely than by a paper of written notes. The pedigree of the animal is also proved by the federal Herd-book, and in later times by pedigree tables, which are becoming more and more general from their clearness and completeness. The appraisement of descent considered in the adjudication of prizes, and in part also in the admissibility of the bull for service, is calculated by marks.

A pedigree book is a new factor in guaranteeing pedigrees. It treats of the best breeding stocks and their descendants. In researches for purity of blood it is one of the best helps and renders excellent service in the purchase of animals for breeding. In 1911 the Swiss Agricultural Department published a pedigree book for the territory in which the Brown Swiss prevails. In 1914, a similar book appeared for the Fribourg breed, edited, with the aid of a grant from the Government, by the Federation of the canton of Fribourg.

Though the co-operative societies have displayed great efficiency in promoting regular registration and in keeping exact records of pedigree, the same cannot be said with regard to records of productive capacity. There are some data successfully kept as to the produce of milk, chiefly on the great estates with stall farms, but these are few in comparison with the great extent of the breeding districts and the number of co-operative societies. The reasons for this arise partly from the natural conditions of the country. In the higher mountain regions nearly all the animals for breeding spend the whole summer in the Alpine pastures, exposed to continual changes of weather which cause difficulty in the study of their capabilities. Yet we cannot say that it is better in the valleys and that there is no need for greater care in such matters. Efforts are, however, being made for investigation, and sooner or later they must bear fruit.

Cattle-breeding Societies in India :—So far co-operative societies for cattle-breeding purposes have not been started in several of the provinces of India, though a pre-eminently agricultural country like India offers a rich field for the development of this type of societies. A few such societies have been started in Bombay mainly with the object of purchasing a good bull and herding it with the best of the village cows in charge of a herdsman paid by the society. A proper herd-book is maintained, and, where possible, a

separate grazing area is also secured. In the Punjab a good beginning has been made and about a dozen cattle-breeding societies have been started. In the Central Provinces a few co-operative cattle-breeding societies had been started. There was one such society in the Raipur district, which leased 490 acres of grazing land from Government, and commenced with a herd of forty cows and one bull, purchased for them by the Agricultural Department. The members themselves in their villages had no cows fit to be used as the foundation of a breeding herd. The share capital was Rs. 3,000: the shares were Rs. 100 each. Each member was allowed to have up to six cows on the farm. The cows were branded and remained the member's own property while the bull belonged to the Society.

That co-operative cattle-breeding has not yet taken root in this country is proved by the following observations of Mr. Clouston quoted in the C. P. Registrar's Report for the year 1920-21—"These two co-operative cattle-breeding societies are never likely to do well. The members, with one or two exceptions, take little or no interest in the working of the society, they do not attend the meetings of the societies nor do they even take the trouble to inspect their animals. Cattle-breeding is a branch of agriculture which requires the personal attention of those who take it up—a fact which the members of these societies have failed to grasp."

Co-operative Cattle Insurance Societies.—No occupation is so liable to risks and sudden calamities, beyond the power of man to prevent, as agriculture. Crops may be destroyed by locusts, rats, blight, excessive or insufficient rain, storms or floods; straw or grass may be burnt; cattle may be carried off by epidemics or by other causes of death too numerous to mention. A single one of these misfortunes may make it impossible for a farmer of small means to carry on his business and may bring him to ruin.

It is therefore the bounden duty of a prudent farmer to guard himself by such means as he can against the risks with which he is faced. Of these none is more urgent or more disastrous in its incidence, than the loss of his cattle from whatever cause. Without plough-cattle he cannot till his land or move his produce and his whole occupation is brought to a stand-still. If by any effort it were possible for him to assure that on the death of any of his cattle funds would be forthcoming to purchase another in its place, it would surely be his duty to make that effort.

In western countries a method has been devised whereby some of these risks can be guarded against. Co-operative societies have been started to insure them against hail, frost, and storms, and others to insure them against fire. The moderate success which these have gained, however, is quite overshadowed by the remarkable results of co-operative cattle insurance. In the small country of Belgium alone there were in 1909 no less than 1,142 societies comprising 1,01,709 members and insuring 2,94,583 cattle of an average value of Rs. 200 each. In France in 1910 there were 8,428 cattle insurance societies and in Germany 8,400.

Insurance is the method by which a number of owners combine to pay in advance to a society yearly sums (called premiums) sufficient at least to equal the yearly average amount of loss sustained in respect of the things assured. From the sum thus collected the society is bound to pay indemnities for any losses incurred by the members during the year. The premiums are calculated at a fixed proportion of the value of the things insured and vary according as the risk of loss is large or small. For instance, a straw hut is far more likely to be burnt down than a stone house and therefore the premium payable for it would be proportionately higher. Now it is obvious that if any five or ten persons join in paying premiums, one or two losses above the average may

exhaust all the funds and bring their society to bankruptcy. But when a large number of members join, the total losses are more likely to be near the average and the position of the society is safer. For this reason no cattle society should be started unless at least 100 cattle are insured in it. But the principle of large numbers must not be extended too far, because on the other hand it is absolutely essential to keep the organisation cheap and simple and subject to easy control. The insured animals should be always under the society's eye to avoid any trickery and, therefore, the area should be small. All the cattle should be admitted only after careful examination by the expert Supervisor and should be liable to be watched. The members must be able to see that the rules for keeping cattle are regularly complied with. To keep expenses low the Supervisor must work gratuitously and therefore cannot be expected to spare time for travelling about and supervising a very large number of cattle.

Practical example of insurance.—The working of a society can be best understood by a simple practical illustration. Let it be supposed that there are 100 cattle insured of an average value of Rs. 60, and 80 of an average value of Rs. 40. This means that the total value to be insured is Rs. 9,200. If the premiums on the cattle are calculated at 5 per cent. of this value, the total annual income of the society would be Rs. 460 which is a sufficient sum to pay compensation for 11 of the Rs. 60 animals or 17 of the Rs. 40 animals, provided that only $\frac{3}{4}$ of the estimated value is actually paid as compensation. Of both classes of cattle together, compensation could be paid for 14 heads. Now if losses due to the causes mentioned in the by-laws are excluded, the death-rate ought very rarely to exceed 5 per cent. (in Europe the mortality is as low as 3 per cent.) and therefore not more than 9 cattle should ordinarily die. The unexpended balance of the premiums would remain with the society and go

to the reserve fund as security against bad years and epidemics.

How to fix the premium rate.—It is obvious that the amount of premium charged will depend on the probable mortality among the cattle insured. It is therefore very necessary to estimate the death-rate as correctly as possible. In India there are no accurate and complete statistics available upon this subject and even if there were, the death rate varies so much from district to district that they would have to be accepted with great caution. Each society must try to fix its own premium rate. In fixing the rate, the following points among others must always be taken into consideration:—

- (1) What risks are the cattle to be insured against? As far as possible, in order to prevent disappointment to insurers, all risks should be accepted, even epidemics, otherwise there is room for trickery, discontent and disputes about the real cause of death. A few special exceptions may, however, be made but the number of exceptions should be kept down as much as possible.
- (2) What diseases are specially common? Besides ordinary non-infectious diseases, the chief epidemics that cause death among cattle in India are—
 - (a) Rinderpest—This disease kills about half the cattle which it attacks in the plains and nearly all in the hills. Therefore in hilly tracts either cattle insurance societies should not be started, or they should exclude death by this disease from the risks insured against. Where it is common, young cattle die of it more usually than old ones, and it might be well to raise the minimum age for insurance and to insist on preventive inoculation as soon as the disease appears in the village.

- (b) *Hæmorrhagic septicæmia*—This disease usually attacks buffaloes, and it would be prudent to exclude them altogether from societies in places where the disease is common. The best way to stop it spreading is to clean the byres of the cattle thoroughly everyday and to provide them with clean water to drink.
- (c) *Black-quarter* attacks chiefly young animals up to four years of age. Adult animals are not so susceptible except in a few notorious places and may be protected by vaccination.

Foot and mouth disease, parasites, errors of diet, accidental poisoning, famines, etc., are fair risks and societies must be prepared to cover them.

The amount of indemnity to be paid—In the case of human beings the full value insured is paid because it can always be assumed that they avoid death as far as they possibly can. The same is not true of cattle. Owners might often be tempted fraudulently to cause the death of their stock. Therefore the by-laws should lay down only $\frac{2}{3}$ of the estimated value as the amount of indemnity.

Liability of members.—It may happen that the indemnities falling due exceed the capital that has been accumulated by means of premia, and this is not unlikely to happen in the early years of a society before adequate capital and reserve fund have been obtained. In such a case three courses are open. The members might introduce a by-law providing that every claimant should receive a proportionately reduced premium at the end of the quarter or that the members should be bound to make good the deficit by a contribution all round, or they might induce some charitable body or famine relief fund to guarantee to make up the sum by a contribution.

Administration.—The success of the society will depend

chiefly on the ability of the supervisors mentioned in the by-laws. It is their business to inspect the animals and satisfy themselves that they are kept in sanitary condition and free from disease, and otherwise eligible for insurance. They should revise their valuations half-yearly. They should attest the report of the death of any insured animal. (They should not judge their own cattle or those of their relations).

The Burma Cattle Insurance Societies.—With regard to cattle insurance only two schemes have hitherto been tried, one in Coorg and another in Burma. Under the Coorg scheme the owner pays two-thirds of the value of the animal insured to the society within 4 years by instalments of decreasing amounts. Should the animal die before the payments are complete, the whole amount insured is paid to the owner. If it survives the period, the full amount of the premia paid, but without interest, becomes payable on death or invalidity. Under the Burma system only plough cattle and buffaloes between the ages of 4 and 12 are accepted for insurance. The amount of the indemnity is two-thirds of the value of the animal as estimated by the local committee and this estimate is revised half-yearly. A premium is charged at the rate of 5 per cent. on the value of the animal. As the premia charged under the Coorg system are probably too high to be acceptable to agriculturists except in districts where cattle are very cheap, the Burma system on this account will probably be found preferable. But if it is introduced in other parts of India, local modifications of the scheme will, no doubt, be necessary, specially because Burma has a great advantage over other Indian provinces in that cow's milk is seldom used by the Burmese people for human consumption. Consequently the calves get all the milk and the cattle are more healthy and stronger than in other provinces. There is also plenty of grazing except in certain seasons of the year. The village and tenure systems of Burma moreover enable the

villagers to prevent individuals from adopting practices pernicious to the general welfare of all the cattle in the village. The cattle insurance societies have given further stimulus to this system and sanitary measures for the protection of the cattle are adopted in every village as soon as any disease or epidemic is threatened.

In Burma the area of a cattle insurance society is ordinarily limited to one village. Membership is practically confined to the members of a credit society. (The Registrar of Burma does not consider this rule to be essential, but it has been adopted in order to minimize the chances of dishonesty on the part of the cattle insurance society in its dealings with the re-insurance society. Any such dishonesty can now be punished by the closing of the credit society, which is bound to prove a severe misfortune to all its members). Members are encouraged to insure all their eligible cattle, but at present they are not compelled to do so.

On the death of an insured animal, an indemnity of two-thirds of the value assessed, less the price of the hide and carcase, is paid out. The valuation work seemed to be easier in Burma than it is likely to be, say, in the United Provinces. The cattle are more or less of the same value, if of the same age. In other words the standard of care bestowed on the animal from the time of its birth is uniformly high and there are not many different breeds to be taken into account. It may also be noted that the meat of a dead animal is eaten by many of the local people. The price of the carcase is thus a substantial sum and the indemnity payable is appreciably reduced thereby.

A re-insurance society has been organised for the whole of Burma of which the Registrar is at present the honorary and ex-officio manager. Half the premia collected by the insurance society is deposited in the local credit society. The other half is sent to the re-insurance society along with a

list and particulars of cattle insured and their valuation every half year. If any animal dies, half the indemnity that has to be paid comes from the re-insurance society, the remaining half has to be made good from the funds of the primary insurance society. The latter has two separate funds, viz. : (1) the general fund consisting of all premia realised during the year, and (2) the reserve fund consisting of fines, entrance fees, donations, profits of previous years, etc. In the event of the fund received as premia during the year proving insufficient to meet the claim of half the indemnity payable by the primary society, half of the reserve fund may be drawn upon in any one year with the Registrar's sanction to meet the deficiency. If the funds are still insufficient, the indemnities for all animals that have died during the year will be proportionately reduced. There are now about 400 Cattle Insurance Societies in Burma with about 6,000 members. The Re-insurance Society was started about 1915 and, within three years, its accumulated funds amounted to about 9 per cent. of the whole risk re-insured by it. It has appointed a passed student of the Bengal Veterinary College as its Veterinary Officer who has received a course of training in the flaying and preparation of hides, and the knowledge thus gained he has endeavoured to disseminate among the societies visited by him. It banks with the Upper Burma Central Bank which is the Provincial Co-operative Bank for Burma. In the other provinces of India there has not been any such remarkable development of the cattle insurance movement as in Burma, though in the Punjab there are 37 Cattle Insurance Societies of which 30 are in Rohtak district where there is also a re-insurance society.

Fishermen's Co-operative Societies.—Next to rice, fish forms a staple food of the Bengalees. The supply of fish, however, has not been able to keep pace with the

demand and the result is that the price of fish has increased cent per cent within the short period of a decade. Attempts, therefore, are being made to form Fishermen's Co-operative Societies to improve the condition of fishermen and to increase the supply of fish. It has been pointed out* that if the swamps, hollows and pits by the side of railways are taken over by fishermen's co-operative societies and re-excavated into tank-fisheries the triple problem of fish-supply, water-supply and prevention of malaria would be solved. Such fisheries, it is pointed out, would

- (1) supply an indigenous, nitrogenous and wholesome animal food which is necessary for the health and strength of the people ;
- (2) supply incidentally the want of pure drinking water ; and
- (3) destroy malarial mosquitoes.

By-laws of fishermen's co-operative societies confine membership of the society to bonafide fishermen and declare the object of the fishermen's co-operative society to be—

- (1) to raise funds by way of loans, deposit or otherwise by making use of the combined credit of the members ;
- (2) to grant cash advances to the members for necessary purposes at a moderate rate of interest ;
- (3) to purchase improved fishing appliances to be sold or to be hired out to its members ;
- (4) to arrange for the disposal of the catches of the members when necessary ;
- (5) to accept deposits from members in order to stimulate the habit of saving ;
- (6) to arrange for direct leases of fishery where possible ; and generally,

* See article on "*Improvement of fish supply in Bengal by Co-operation*" by Prof. S. C. Ray in the *Bengal Co operative Journal*, September, 1915.

- (7) to do all such things as are conducive or incidental to the attainment of the said objects.

It has been pointed out that in order to improve the condition of fishermen and to cheapen the price of fish it will be necessary to organize societies not merely with the object of giving loans to the members, but also with the object of taking direct leases of fishery rights, and of making better arrangements for the disposal of the catches. As regards taking direct leases of fisheries, however, it would be advisable to start with those fisheries the rights of which belong to Government. If found successful, it could then be extended to fishery leases which are owned by Zemindars. Only recently the Guzirpur Haldar Society has taken the lease of a portion of the Bhagirathi Fishery and it has commenced exceedingly well.

As a result of the joint efforts of the Departments of Co-operation and Fisheries forty-seven co-operative societies have been started amongst fishermen in Bengal—all, except four or five of them, are however merely credit societies. Madras has also made a very satisfactory beginning as regards the institution of such societies. Thus we read in the annual report of the Madras Fisheries Department for the year 1914-15 :—"After four years of constant talk and persuasion I have succeeded in starting a co-operative society among the fishermen of Tanur. The society was registered about the end of March and arrangements are being made to commence business. Fifty of the leading fishermen who own boats and nets have already joined the society and paid the first call on their shares. This is a co-operative *nidhi* and each shareholder has to pay a sum of Rs. 50 within 25 months by instalments of Rs 2 per month, and thus the members have to create a capital by their own contributions. As the maximum number of shares is 200, this society will have a capital of Rs. 10,000 in two years' time provided the fishing

season is good, and with this large amount it will be easy enough to put a stop to the sowcar's greedy transactions in the place. Most of these people will require only short term loans, and it is not unlikely that they will have money in hand to lend to other societies or banks. Fishermen at Quilandi, Tellichery and some other places are being persuaded to organize similar societies, and as soon as the successful working of the Tanur society comes to their knowledge it may be presumed that they will also come forward to form societies in their respective villages."

There are 18 Fishermen's Societies in Bihar and Orissa with a membership of 240 and a working capital of Rs. 13,111. The members of the societies within the jurisdiction of the Khurda Central Bank have been able to provide themselves with boats and nets of their own with which they make large catches. They sell their fish to Calcutta merchants who flock there with ice-boxes and pay good prices. They take away nearly all the big and good fish and little is left for local consumption.

General organizations for the development of co-operation in agriculture :—Agricultural co-operation must be treated as a whole movement of which agriculture credit and agricultural co-operative societies for purchase and sale, insurance, etc., are all inter-laced members. To promote agricultural co-operation in all its varied aspects and to co-ordinate their activities, associations have been started in different countries under different names. The best known among these associations are the Agricultural Syndicates of France. These Agricultural Syndicates are a peculiarly French institution and were brought into existence by the law of 21st March, 1884, since when they have been established in great numbers. The following extracts* from

* From Mr. Otto Rothfeld's "Impressions of the Co-operative Movement in France and Italy."

the bye-laws of an Agricultural Syndicate may be of interest :—

Art. 4. The following may belong to the syndicate. All persons within the district who are either owners of agricultural property, farmers, agricultural servants or laborers, wine growers, gardeners or manufacturers or merchants, buying and selling agricultural products and in general all persons exercising a trade connected with agriculture

Art. 8. The general object of the syndicate is the study and defence of all agricultural economic and social interests and its special aims are—

- (1) to examine and put forward all legislative or other reforms and all economic measures, to support them before the authorities and to claim their realization especially in all that concerns charges which are burdens on real property, tariffs of railways, commercial documents, customs duties, octrois and rents of stands in fairs and markets ;
- (2) to stimulate and favour experiments in cultivation, manure, improved machines and tools and all other means suitable for saving labour, reducing expense and increasing production ,
- (3) to encourage, create and administer economic institutions such as credit societies, societies for production and sale, insurance societies and offices for information in regard to the supply of, and demand for agricultural products, manure, cattle, seed, machines and labour ;
- (4) to serve as an intermediary and to organise dépôts for the sale of agricultural products and for the purchase of manure, seed, implements, cattle and all primary or manufactured articles useful for agriculture, in such a manner as to benefit its

members by the discounts they obtain. The syndicate is not responsible to the sellers for the payment of articles, for it has served only as an intermediary ;

- (5) to supervise the deliveries made to the members of the syndicates or obtained for them in order to secure their purity and to suppress fraud ;
- (6) to give advice and consultations in all matters which concern agriculture and to supply expert arbitrators for the settlement of all economic disputes.

Art. 9. The syndicate is administered gratis by an officer nominated by the Governing body.

Art. 20. The property of the syndicate is composed of the following—

- (1) entrance fees of members,
- (2) annual subscriptions of members,
- (3) donations and legacies,
- (4) subscriptions which may be given.

Art. 22. Each member must pay an entrance fee of 2 francs. All demands for State subventions have to be addressed to the Prefect.

These Agricultural Syndicates have so far worked extremely well and have achieved their purpose. Among other things they do a good deal of excellent work by arranging excursions to industrial centres and by organizing agricultural instruction. Mr. Rothfeld thinks that "an institution like the Agricultural Syndicate would be extremely useful in India in order to group together and unify the various agricultural co-operative activities of a village. In India there is too much of a tendency for the various societies—manure, seed, cotton sale, and so on—to be regarded as entirely separate, and all of them as being of less importance than the credit society. In the long run it can hardly be healthy that the

obtaining of credit should hold the first place and of two extremes it probably shows the sounder organization if improvement of agricultural methods takes the first place."

Associations on the above model—known as "District Agricultural and Co-operative Associations" in Burma and as "Co-operative Agricultural Associations" in Bengal—are being started in some provinces of India. The general object of the Co-operative Agricultural Association of the Bengal model is to promote agricultural interests by the application of co-operative methods and to introduce and popularise agricultural improvements amongst members by such methods ; and in furtherance of the above object, the Association is at liberty :—

- (a) to acquire or take on lease land for joint cultivation by members or for leasing out amongst members for cultivation on such terms and conditions as may be agreed on between them and the society ;
- (b) to grow such seeds as may be recommended by the Agricultural Department on land belonging to the society, or by special arrangements with members to have such seeds grown on land belonging to them and reserved by them for the purpose of producing such seed for distribution among the members ;
- (c) to sell the agricultural products belonging to the Association, and to undertake the sale in common of the agricultural products of the members ;
- (d) to undertake—
 - (i) the supply of fodder, manure, seed, implements and all primary and manufactured articles useful for agriculture, and

- (ii) the maintenance of selected agricultural implements which shall be available for use by members of the Association ;
- (e) to grant loans to individual members provided that such loans are required for the purpose of developing or cultivating the land allotted to them by the Association or for meeting the expenses of any cultivation undertaken by them at the instance or under the direction of the Association ;
- (f) and generally to do all such other things as are incidental or conducive to the attainment of the objects of the Association.

Membership of the Association is open to all persons above the age of 18 years and holding immovable property in the area defined or otherwise interested in agriculture, who have subscribed to the application for registration or who may hereafter be elected according to the rules. Every member has to pay an entrance fee of Re. 1/- and take at least one share in the Association.

To carry on the work of the Association the society may borrow money, receive deposits at interest from members and non-members up to a limit fixed at the general meeting provided that the maximum amount of liability is not to exceed five times the amount of paid up share capital plus the reserve fund separately invested. The Society is competent to receive donations and subscriptions from persons interested in the objects of the Association.

The Committee of Management from time to time draws up rules with the approval of the Registrar of Co-operative Societies, Bengal, and the Director of Agriculture, Bengal, relating to the cultivation of lands belonging to the Society, and the manner in which the seeds grown by the Society or the members at the instance of the Society should be stored and

distributed. The dealings with non-members in the matter of supply of seeds, fodder, manure, implements, etc., purchase of agricultural products for sale along with members' products, the use by them of agricultural implements maintained by the Association are subject to such rules as the Registrar of Co-operative Societies, Bengal, may from time to time lay down.

CHAPTER XI.

CONSUMERS' CO-OPERATIVE STORES.

In country bazars the rates charged by the shop-keepers are often found to be far in excess of any justified by market conditions. Instead of remaining content with a fair commission on their outlay, they frequently form rings in order to control the market, and fix the selling prices of their goods at a figure that secures them quite an exorbitant profit. The purchaser is helpless against them because there is usually no other bazar in the neighbourhood, and because he is often in debt to them and, therefore, not at liberty to deal with other merchants even when opportunity offers. The shopkeepers abuse their power not only by exacting high prices, but by adulterating their goods or by giving false weight or by selling old and rotten stock. These are the evils which a co-operative store society is designed to remove.

Such a society sets out to sell to members and customers articles of consumption bought by the society or manufactured by it. According to Professor Gide "every consumers' society has for its object *production*, but, as a matter of fact, it only achieves this at an advanced point in its evolution. In its beginnings a consumers' co-operative society is satisfied with buying the requirements necessary for its members; it is a shop-keeper long before it is a manufacturer." It is as a shop, or to give it its familiar name "a co-operative store," that the consumers' co-operative movement first manifested itself in the middle of the last century. The consumers' primary object in combining themselves into such a store is to avoid the long series of middlemen by obtaining direct from the producers what they want, in the amount and

quality in which they want it, or by themselves directly manufacturing their own requirements. To this end the members of a store co-operate. But it does not follow that a passive union of consumers is of itself sufficient to guarantee that certain economies should fall, as it were, heaven-sent into their lap. By uniting they secure for themselves the possibility of obtaining these economies ; but to realize them in fact they must *do* certain things. The required activity is three-fold—(1) the members of the consuming body must make known their wants to the store, (2) they must satisfy their wants from the store, and (3) they must control those who attend their wants in the store. The immediate advantages of a co-operative store are that (1) it protects health by preventing adulteration ; (2) it lowers prices all round by its influence and example ; (3) it provides its members with an easy method of saving by the bonus system ; and (4) by its management it secures an education in business management for the working and the middle classes.

Stores of this kind exist in almost all countries of Europe ; their constitution is in its essentials the same everywhere ; their evolution has always had the same significance. But one country holds an unchallenged position as the place of their origin and of greatest development and that country is Great Britain ; and one Society—the Rochdale Pioneers' Society—has been the pattern and example on which the co-operative stores systems are modelled in every country in Europe and elsewhere. Let us begin therefore, with an examination of the Rochdale Pioneers system. While Raiffeisen and Schulze-Delitzsch were laying the foundations of the structure of credit co-operation in Germany, Robert Owen and his followers were sowing the seeds of distributive co-operation in Great Britain. It was on October 24th, 1844, that the 28 flannel weavers of Rochdale—the “Fathers of Co-operation” as they have been called—formed the Society of the Equitable Pioneers of

Rochdale. The objects of the Pioneers are thus set forth in their famous manifesto—

“The objects and plans of this society are to form arrangements for the pecuniary benefit and the improvement of the social and domestic condition of its members by raising a sufficient amount of capital, in shares of one pound each, to bring into operation the following plans and arrangements :—

“The building, purchasing, or erecting of a number of houses in which those members, desiring to assist each other in improving their domestic and social condition, may reside.

“To commence the manufacture of such articles as the Society may determine upon, for the employment of such members as may be without employment or who may be suffering in consequence of repeated reductions in their wages.

“As a further benefit and security to the members of this Society, the Society shall purchase or rent an estate or estates of land, which shall be cultivated by the members who may be out of employment, or whose labour may be badly remunerated.

“That as soon as practicable, this Society shall proceed to arrange the powers of production, distribution, education and government ; or in other words, to establish a self-supporting home colony of united interests or assist other societies in establishing such colonies.

“That for the promotion of sobriety, a Temperance Hotel be opened in one of the Society's houses as soon as convenient.”

The Pioneers started with a capital of £1 each and theirs was a small store open only on Thursday and Saturday evenings, offering for sale small quantities of the necessities of life. It can hardly be made a matter for reproach that the practice of the Pioneers fell short of their declared intentions. Starting from retail distribution they carried out that part of

their original scheme which was found to develop most naturally out of the store's main objective. They made bread themselves in their own bakery : they built houses for their members and recreation rooms for the society. But they refrained from what was alien to their development, viz.—out of work employment and land colonisation. Almost from the very beginning the Pioneers insisted on (1) sale at market price with cash payments to members as well as outsiders ; (2) distribution of profits among members in proportion to the amount of their purchases ; and (3) strict neutrality in religion and politics. These three essentials of the Rochdale system became universal in all the stores that were organized in every district of Great Britain, and we should now discuss these principles and their corollaries and their bearings on the course of the future of the consumers' co-operative movement.

(1) *Sale at market price.*—The first thing that a prospective member of a co-operative store asks, is—"will the store sell cheaper than the ordinary retail shopkeeper?" If the store began by underselling the market, it will not only exasperate the traders of the neighbourhood by a price-cutting competition and prevent sales to non-members, but it will also, as Prof. Gide points out, prevent the society from attaining any of the larger items of the co-operative programme (*e.g.* individual or collective saving, insurance, production, education or propaganda work or the building up of capital) which can only be carried out out of the differential surplus between cost of purchase and sale at market price. Indeed experience shows that a co-operative store can very seldom really sell at the beginning at cheaper rates than those offered by the retail trade. The retail shopkeeper is after all an expert and his cost of management is much lower and so he can often undersell the store by fair means while it will always be found that if the store tries to sell at the beginning at considerably below the market price, the retail trader will beat the

store by buying and selling the articles at a lower price even at a loss. The real point is to sell on business principles and by economic management and by giving customers what they want to secure a large surplus which can be divided as a *bonus* at the end of the year.

(2) *Sale for cash only* :—All transactions between a co-operative store and its members should be for cash, and, indeed, if a co-operative store can do without credit from its wholesale suppliers, it will be well for it to do so. Why should there be no credit transaction ? Because credit is just as much a commodity as, say, cloth or oil, and one cannot get credit without paying for it. Hence it must be added to the price. Simple people may say—"Such and such a shop gives us long credit and does not charge anything extra for doing so." It is an impossibility. No one can give us long credit without making us pay for it. If a store gives credit to its members a certain amount of that store's money is locked up and that means so much interest lost. The store does not get that capital free. It must pay interest upon it. Again, the giving of credit, locking up capital as it does, decreases the available capital for turnover and thus restricts the business of the store. Then, too, credit necessitates the keeping of accounts which otherwise there is no necessity to keep. It thus increases the cost of management. Credit also, even in the best of times and places and with the best of people, involves some bad debts—it may involve even litigation and the less litigation we have the better. Furthermore credit given to its members often makes it necessary for the store to make its own purchases on credit and no matter what simple people believe about philanthropic wholesale dealers, a store that pays cash will always get better terms than a store that promises to pay within a month. Besides this, the store that pays cash like the man who pays cash is independent and can go where it likes and is not tied to any particular

house. The worst evil is when a co-operative store uses the sale on credit as a means of enticing away the members of a store which sells only for cash. Finally, as a co-operative store in the beginning has not generally a very large capital and as it should avoid borrowing from outsiders, if possible, its only hope is to turn its capital over rapidly, and this it cannot do if it gives credit.

(3) *Sales to members as well as non-members* :—It has long been debated whether, according to strict co-operative principles, the co-operative store should confine its sales to members only or extend them to the outside public as well. In Germany the law prohibits sales to outsiders; but in Great Britain, Russia, Spain, Belgium, Holland, Italy and France, the store sells to members as well as to the outside public. The Rochdale Pioneers followed the ingenious method of giving the non-members who dealt with their society a bonus or dividend at half the rate of that returned to members, placing the surplus in the reserve fund. Professor Gide prefers the system of sale to the public for the following reasons—"First, because it is believed that selling to the non-member is the most efficacious means of propaganda on behalf of co-operation; secondly, because, according as it increases the takings of the society so it enables the society to reduce its working expenses, to increase the rapidity of its turn-over and finally to enlarge its sphere of operation." The Rochdale rule of sale to outsiders with limited participation in dividend is now almost universally followed.

(4) *Distribution of profits among all the members in proportion to the amount of their individual purchases* :—The sales by the co-operative stores being usually fixed at the competitive market prices, the excess over wholesale rates serves to cover the expenses of management, allows for depreciation of plant, provides a reserve fund and finally supplies the "dividend" which has everywhere proved to be

a great attraction to members. The customer, on making any purchase, however small, gets a paper or metal voucher, stating its amount. At the end of each half year the ascertained surplus is, after payment of all expenses and charges, returned to the members in exact proportion to their purchases. "It is this returning to the purchasers of the margin between the cost of production and the price paid that distinguishes the co-operative society from capitalist joint-stock trading. In the British Co-operative Movement the characteristic, and even to this day the most generally adopted, method for this distribution of the surplus, mis-named 'profit', is by a dividend upon the amount of each member's purchases during the period of the account. In adopting this 'dividend on purchases', as contrasted with dividend on share capital the 28 flannel weavers of Rochdale hit upon a device of extraordinary potency, affecting alike the constitution and the economic and social results of the vast organization that they were unwittingly founding." (*Sidney and Beatrice Webb*).

We should add to these main principles another rule of conduct which is of vital importance to the success of co-operative stores *viz.* that the members of a store should be unflinchingly loyal to the stores *i. e.* should make it a point to purchase all or most of their requirements from the store. Regarding this vital principle on which the very life of a co-operative store depends we cannot do better than quote Mr. J. T. Donovan's plain but straight words—"There are persons who start with the intention of supporting the stores and are seduced by the wily trader from their loyalty to their own institution. These persons are committing a crime against co-operation. It were better that they never had anything to do with it. They are abetting either adulteration or an attempt to cut the throat of their own society in 99 cases out of a hundred. If, therefore, you

are not going to be loyal to your store, to give it a fair chance by your loyalty to be a success, I appeal to you not to join the store. Stay away." Every member of a co-operative store must co-operate whole-heartedly and not in a half-hearted and doubtful manner. The success of the big co-operative stores in the West is built on the willing loyalty of their members ; and the members of our co-operative stores should first promise to give their full support to the stores before they are admitted to membership.

Such are the main principles of the consumers' stores movement laid down by the Rochdale Pioneers and followed with more or less little variation by consumers' stores all over the world embracing a membership of about 30 million souls. In the United Kingdom alone there were, in 1920, 1379 such co-operative stores with a membership of more than four and a half millions and they carried on an annual trade worth more than 254 million pounds. Russia has the enormous number of 25,000 stores with twelve million members ; Italy and France come next with about 4000 stores each, Denmark and Hungary following her each with about 2000 of them ; while Germany accounts for 1291 stores with a membership of 2,714,109 and a total annual trade of about 140 million pounds.

The stores are in a particularly privileged position as regards wholesale production of commodities. The ordinary shop does not know the exact amount and nature of the demand for commodities ; but the store knows them exactly, for the members are morally bound to make their purchases from the store. When the demand for a certain commodity is sufficiently high, the store finds it more economical and profitable to undertake its production. Many Co-operative Stores have productive departments for making bread and confectionery, for manufacturing boots and shoes and for corn-milling and tailoring.

Just as it is economically advantageous for individuals to combine into Co-operative Stores, so it is for individual stores to federate into Co-operative Wholesale Societies; and just as the success and strength of stores depend on the individual member's loyalty to them, so also the success and strength of Co-operative Wholesale Societies depend on the individual store's loyalty to the Wholesale in the matter of custom. Almost from the outset British co-operators had in view the necessity of a wholesale society which would strengthen the position of the stores as buyers. Between 1863 and 1868 the English and Scotch Wholesale Societies were formed—they are the crowning points of the British store movement on its commercial side. These Wholesales are in the first place wholesale merchants with their central houses at Manchester and Glasgow and depots in the provinces. They have also purchasing depots with resident buyers in different parts of the world. They are, secondly, wholesale producers—industrial and agricultural.

The C. W. S. Productive Works include—Biscuit, Preserve and Soap Works, Flour Mills, Tobacco Factory, Lard Refinery, Margarine Works, Printing Works, Rope and Twine Works, Colliery, Flannel and Blanket Mills, Hosiery Factory, Corset Factories, Shirt Factories, Woollen Mills, Weaving Sheds, Boot & Shoe Works, Cabinet Factories, Brush Works, Iron Works, Bucket & Tinplate Works, Paint and Varnish works. In the year ended June 26th 1920, these various C. W. S. productive works supplied commodities worth more than 30 million pounds. The number of members belonging to the English C. W. S. share-holding societies was, in 1920, 3, 341, 411 holding shares valued at £4, 270, 408; and the net sales were valued at more than 105 million pounds. In the Report published by the Co-operative Survey Committee in 1919 it is observed that "the Wholesale Societies stand as giants in the mart of commerce not only in Great Britain but also

in the colonies and foreign countries beyond the seas." "It has raised up a magnificent fabric," says Mr. Wolff in his *"Rural Reconstruction,"* "supplying almost literally every one of its numerous members' very varied wants, among such insurance, which insures people's lives at a nominal cost of only 5 per cent. of the premium income—as compared with 25 or 50 per cent. in joint stock companies—maintaining its own great banking department, farming some 50,000 acres in this country and more in Canada, having its own plantations in India, Ceylon, and elsewhere, its own colonial possessions for the supply of raw material for its large soap works and the like, keeping its own flotilla of ships to carry its goods across the seas, its gigantic cornmills in which it grinds its corn, and its immense depots in which are stored, ready for distribution, vast quantities of goods of every description, agricultural requisites of every sort included. From their great centres the two large societies mentioned cater for their co-operative clientele of somewhere about four millions of people, saving them millions of money in the year, greatly assisting them in the education of their children, emancipating them from previous bondage, and raising them in every respect".

The chief features of the administration and control of the Wholesale Societies are the management committee and the quarterly meeting. The management committee is a representative body elected only by the member-societies. The quarterly meeting is a meeting of delegates from the Retail Societies, held to criticise and receive or reject the report of the committee on the business of the society during the quarter just ended. The C. W. S. in Manchester is managed by 32 full time directors who get £900 per annum each as remuneration. As for the quarterly meeting the arrangement is to hold meetings on the same day in the different sectional areas, and to hold the general meeting on the following week. This

brings the individual members in closer touch with their representatives and through them with the wholesales. The employees of the wholesales now number many thousands. The management committee meets weekly. The bulk of the trade is done in goods bought by the society's buyers at home and abroad and distributed to the Retail Societies from its warehouses, or in the case of very large consignments of certain goods, sent direct to the Retail Society from the manufacturer or from the port of landing. Large stocks are always kept in Manchester, Newcastle, and London warehouses. The principle of purchasing in every instance is to go direct to the source of production whether at home or abroad so that the commissions of middlemen and agents may be saved. For those articles sold by auction by brokers, the society's buyer has to bid with the rest. The home buyers usually get samples from the manufacturers, but they have also to visit special markets. The millinery buyer visits London and Paris at certain seasons. The buyer for dried fruits goes to Greece in autumn and secures the pick of the crop by calling on the largest grower and paying cash on delivery. In New York, Montreal, Sydney, Spain, Copenhagen, Hamburg, and Gottenburg, the wholesale has purchasing depots with resident buyers.

Great Britain has taken the lead, but almost all the European Countries have followed her example and have built up a co-operative edifice of almost equal grandeur and stability. The Danish, Dutch, French, German, Polish Co-operative Wholesale Societies, the "Hangya" Co-operative Wholesale Society of Austria, the "Centrosoyus" or the All-Russian Central Union of Consumers' Societies—all these are mammoth co-operative organisations of the consumers of the various countries ministering to the diverse needs of millions of men. A detailed study of these various wholesale organizations will be found in a separate chapter.

But this is the proper place for dealing with an important question which has arisen because of the enormous productive activities of Consumers' Co-operative Wholesale Societies *viz.* the conflict between Consumers' Co-operation and Producers' Co-operation. This conflict has arisen because what is essentially a *consumers'* movement has placed the *consumers'* interest "so over-towering above every other consideration, that it now even openly and advisedly makes it its aim to do away with individual farming and asks that agricultural as well as industrial production shall be placed as a subordinate service under the mastership of distribution, in the way in which husbandry is already carried on, on the farms already owned by co-operative societies and cultivated for their exclusive benefit, for the distinct purpose of supplying independently the produce which is to be sold at the stores" (*Wolff: Rural Reconstruction, pp. 112-113*). This is really too ambitious and rather dangerously inclusive.

The Associations of Producers maintain that they have the requisite technical skill for production ; that if the consumers associate themselves for production, the laws of the division of labour and of the specialisation of function will be infringed and economic progress will thereby be retarded ; and that the progressive increase in productive undertakings by associated consumers will only perpetuate the present wages system and retard the emancipation of the working classes. To these objections advocates for production by associated consumers reply thus—The associated consumers will have their work done by persons with the necessary skill and technical knowledge and there will thus be no infringement of the laws of division of labour. Although production by associated consumers does not do away with the present wages system, it certainly mitigates its evils : working for a society of which one is, or may be, oneself a member is very like working for oneself ; moreover, as a

worker member he gets, as consumer, his share of the "profits" which he helps to turn out in his capacity as a producer. Then, again, if the consumers gradually enlarge their productive activities till they absorb all industries, there will be a far nearer approach to the realisation of the ideal of the collectivist state than if the producers, by their sporadic and local efforts, control only some industries and perpetuate the competitive system with all its struggles for profits and privileges. These are sound enough arguments as far as they go, but they do not justify the total absorption of productive co-operative societies by the associated consumer's organisations. Such an absorption will entail a barren uniformity which will, in the long run, retard rather than help forward the economic progress of nations. The best solution of the conflict will be the simultaneous, parallel and independent development of productive co-operative societies and associated consumers' organizations. Co-operators should follow Prof. Gide's sound advice—"Let producers' and consumers' co-operation develop freely, each in its sphere, even if the two spheres seem to overlap; by inter-penetration they will end by forming a single whole."

Consumers' stores in India.—Let us now turn to India and examine the present position and the future possibilities of the consumers' store movement in India. In this vast continent inhabited by 315 millions of people there were, in 1920, only 475 co-operative stores with limited liability and 121 with unlimited liability, whereas, in the same year there were as many as 37,000 credit co-operative societies, agricultural and non-agricultural with limited or unlimited liability. Ever since the inception of the movement in India officials and non-officials have directed almost their whole attention to the solution of the great problem of agricultural indebtedness in India and that is one of the reasons of the comparative neglect of non-agri-

cultural non-credit forms of co-operation. And the few consumers' co-operative stores that have been started in different parts of India within recent years are mainly to be found either in the large towns amongst employees in mercantile or Government offices or amongst the educated middle class population or in large centres of student population. Rural India has not yet sufficiently appreciated the value of association for purposes of consumption. The standard of life of our rural people is comparatively low and their wants are few : these few wants are mostly supplied by that most economical shopkeeper in the world *viz.* the *moodi* or the petty rural trader. Under present conditions it is well nigh impossible for any small local organization of rural consumers to compete with the village shopkeeper with his hereditary training, age-long business connections, with his habit of giving credit facilities to customers and with the advantages accruing from the free and unpaid labor of family members : the instinctive habit of our people of never paying cash where credit is available is an almost insuperable bar to the successful working of consumers' co-operative stores—specialy in villages. The ryot is as much indebted to the *Mahajan* as to the *Moodi* or the petty shopkeeper, and unless there is a radical change in the habits of the ryot brought about either by education or by a higher standard of life, it will be almost futile to attempt to organise stores among them. But the difficulties mentioned above can be largely overcome if the members of neighbouring credit societies (preferably working under a Union) combine to establish a store (as in Burma) or a trading union (as in Madras). Thus in October, 1919, the members of co-operative credit societies of the Kontha Union (in Burma) decided to establish a store with head-quarters at Nattalin. A share capital of Rs. 6,610 was raised from the members and a borrowed capital of Rs. 2,000

was obtained. A small building was taken at a rental of Rs. 10 per mensem and business started with such articles as salt, oils of all kinds, onions, chillies and other household requirements. Three months after the Kontha Union had started business, the idea spread in the neighbourhood and the members of the Pankton Union of co-operative credit societies also decided to establish a store. They raised Rs. 5,300 as share capital and took a loan of Rs. 2,000. The turnover for this store in six months amounted to Rs. 28,900. The members are enthusiastic and have built a shop costing just over Rs. 500 to carry on their business. An auditor paid by the societies has been appointed to check the accounts and teach methods of keeping accounts.* These are undoubtedly very promising examples which might suitably be adapted to the needs of other provinces. Another almost identical method of overcoming the intrinsic difficulties of keeping a regular co-operative retail shop in villages and of popularising the store idea amongst our rural folk is what has been called "indent co-operative trade" by primary credit societies. The method has already been described in the chapter on Co-operation and Agriculture.

Judging from the experience of the several provinces—and particularly of Bengal—during the past few years one cannot be very sanguine about the prospects of the consumers' store movement even amongst the urban workers or the educated middle class. Writing about the co-operative stores in Bengal, the Bengal Registrar observes in his Report for 1920-21—"I found that in most of them the management was hopelessly bad, co-operation was absent, members were disloyal, credit was too freely given, reckless attempts to undersell the market were being made and every defect that could exist in such societies was common." The

* Distributive Co-operation—by W. L. Barretto : Rangoon, 1920.

Behar and Orissa Registrar unfolds a similar tale in his Report for 1920-21: he says—"The goods are indifferent and even bad in quality, the prices of many articles are higher than those in the market, the books are not properly kept, there is no responsibility for the stock nor for anything in fact, and of course as honorary workers they are immune from harsh criticisms." The Punjab Registrar observes in his report for the year ending 31st July 1920—"In our big towns the co-operative spirit is very weak. Unselfish workers are hard to find. Self-help is less welcome than government aid and enterprise gives way before the extortions of the Railway subordinates. Some of the societies at least are doing well, others will be closed." A similar tale of woe is recorded in the report of the Registrar of Co-operative Societies in the Central Provinces and Berar. The Registrar observes—"the dark shadow of politics has fallen across the path of the co-operative store movement. An acute difference of political opinion arose amongst the members. Some of them wished to turn the store into a purely *swadeshi* concern, while others did not. Ten stores have failed to start operations and ten have worked at a loss. * * * Accounts have not been properly kept; stock has not been taken and committee meetings have not been held in accordance with the bye laws. * * * In general the bye-laws which restrict sales on credit have not been obeyed, and in some cases even the members of the managing committee have run up bills which are outstanding against them." The Bombay Registrar regretfully remarks—"few of the members of co-operative stores have a genuine understanding of the wastefulness of the present distributive system and are animated by an intelligent desire to substitute the direct control of the consumers for the complicated and expensive system of distribution by middlemen." The Madras Registrar is equally despondent in his tone: in one

of his recent reports he observes—"The history of distributive co-operation in the Presidency (Madras), with the single brilliant exception of the Triplicane store, has been such that its results far from encouraging tend actually to discourage and prevent the rapid spread of distributive and productive work * * * whatever may be the cause or causes of failure and howsoever one may estimate the ill success of such good societies as those of Coimbatore and Madura it must be admitted that the stores are the weak point of co-operation in this Presidency." As a tragic *finale* to this dismal story of failures we have to record with the deepest regret the cancellation of registration of the Bombay Co-operative Wholesale Society which began its career early in 1920 and is now in liquidation. The objects of this wholesale society were—(1) to buy wholesale and supply to co-operative societies and others articles in general use, of good quality (2) to arrange for the sale to the best advantage of agricultural and other products of members of co-operative societies, (3) to encourage the formation of co-operative stores and supply unions, (4) to serve as an information bureau for co-operative stores and supply unions and to communicate to them information regarding market prices of articles of daily use and other trade matters. The objects were as comprehensive as possible, the inauguration was made under the happiest auspices, but within two years of its start it has had to be under liquidation—to the utter dismay and disappointment of co-operators throughout India. In the face of such a conspicuous case of failure, one cannot be very enthusiastic about the inauguration of the "Hindusthan Central Co-operative Store" which, like its late Bombay prototype, has been started at Allahabad with the object of catering to the needs of the whole province. Its objects are (a) to obtain, produce and supply to its members articles in general use of good quality and save as far as possible

the middleman's profits for the members, (b) to carry on trade on wholesale and retail basis, (c) to arrange for the sale, at the best advantage, of the agricultural and other products of co-operative societies (d) to encourage manufacture by productive co-operative societies and (e) to serve as an information bureau for co-operative stores, supply unions and productive societies. The membership of this society is open to individuals as well as to co-operative societies. The promoters of this solitary wholesale co-operative venture in India should proceed very cautiously and justify the hopes that are entertained about its ultimate success by co-operators all over India.

The lesson to be drawn from the experience in several provinces of India is that the Indian soil is not yet sufficiently prepared for sowing the seeds of consumers' co-operation. It appears, too, that nothing short of the experience of failure will make the store movement a success—and the history of the store movement in the European countries is marked with early failures—and from this point of view the results are not regrettable. We have made an advance: we have learnt what not to do. The danger lies in the disheartening effect of this education. Many stores will fall out and co-operators will have very great difficulty in reviving the idea in the places where this happens. Some—and it may be hoped a not inconsiderable number—will benefit by their experience and set themselves to work on proper lines, and, if they do, there is no reason why the working and middle classes in India cannot effect what the working classes in England have effected in their co-operative stores and what groups of middle class men and bands of students have achieved in Triplicane and in Amritsar respectively.

It will not be out of place to try to summarise here the main causes which retard the progress of the stores movement in India: a competent critic thus summarises them—

- (1) Want of business training on the part of the committee members and particularly the Secretary-Manager ;
- (2) Over-cautiousness or too much speculation ;
- (3) Difficulty of getting the right sort of men to be placed in charge of the stores ;
- (4) Keeping the accounts in a way that render them difficult for a satisfactory audit ;
- (5) Want of interest and loyalty in the general body of members, and particularly on the part of the members of Managing Committee.
- (6) Infrequency of balancing accounts and holding the general meeting. In the English stores accounts are audited quarterly and general meetings are also held quarterly, in some cases even monthly. This is possible because the system of account-keeping is such that the position of the Store can be examined at any time. The Birmingham Co-operative Society, which is one of the biggest societies in England, can tell at the end of each week the approximate profit that the society made during the week.
- (7) Payment of dividend on shares instead of payment of dividend on purchases. In Great Britain the societies pay an interest of only 5% out of the balance of profits on paid up share capital, and distribute them, after deduction of the Reserve Fund and some other funds, amongst the purchaser-members in proportion to their purchases. We should also note here that the Societies in England invariably allow heavy depreciation on fixed and rolling stocks every quarter. The stock-in-trade is always taken at cost price.

- (8) Defective method of stock-keeping which is responsible for heavy leakages and consequent loss.
- (9) The statutory requirement of assigning one-fourth of the profits to the Reserve Fund—thus preventing the store from distributing as much as it might in the proper way as dividend on purchases.

If we want to make our stores successful we should take steps to remedy the above-mentioned defects.

The system of paying a fixed interest on share capital and distributing profits according to purchases is a sound system to which the success and growth of the stores movement in Great Britain may be mainly attributed. Usually 2s. 6d. per pound purchases is paid out as dividend which comes to about 2 annas in the rupee. The system has many advantages. The selling of goods at the prevailing market price maintains a friendly relation with the neighbouring shop-keepers and the return of the surplus to the purchaser-members means that the members can purchase from the store practically at the cost price plus the actual cost of distribution. Moreover, the distribution of dividend according to purchases stimulates the trade of the store and automatically ensures loyalty on the part of the members. It is true that our bye-laws provide payment of rebate on purchases but this becomes more or less uncertain when there is also the provision to declare dividend on share capital up to $12\frac{1}{2}\%$ of the net profits. The fact that it is the consumers who mainly contribute to the success of the store by stimulating its trade should never be lost sight of. Capital is only entitled to a fair rate of interest. The stores bye-laws of our country require some alterations and modifications. Most of the other defects can be removed by providing a system of efficient training and education. Lack of education in the masses is a stumbling block in all our

programmes of progress and unless we can tackle this problem successfully we will never be on the path of sure progress. This question should be taken up in right earnest and should be solved with a determined effort.

The story of the consumers' store movement in India is not, however, a story of wholesale failures and disappointments. There are notable successes and remarkable achievements here and there which it is now our pleasing duty to record. In Madras we have a model co-operative store in the Triplicane Urban Co-operative Store, Ltd., which was initiated even before the enactment of the Co-operative Credit Societies Act of 1904, and which was one of the first societies to be registered under that Act. Since September, 1905, the Triplicane Society has had a triple function. Its original and important duty is to maintain co-operative stores on the Rochdale plan, selling articles in common household demand, of sound quality, free from adulteration, for cash only, and dividing the profits among the members in proportion to their purchases. Its second function is to maintain a Co-operative Credit Bank, receiving deposits from, and making loans to, members at varying rates of interest. Its third function is to manage *chit* funds. We need not describe in detail the second and third functions, for we are more directly concerned with the first one, *vis.* its character as a co-operative store. On June 30, 1919 the Society had a membership of 3559; it had a share capital of over 54,000 rupees; its reserve fund amounted to more than 51,000 rupees; it had a common good fund amounting to more than 26,000 rupees; and it had an annual turn-over of more than nine lakhs of rupees.

The services which the T.U.C.S. renders, directly to its own members, and indirectly to the social advance of the people of South India, are thus described by Dr. Gilbert Slater—

- (1) It sets an example of better methods of trading.

Prices are fixed and there is no scope for chaffering and the consequent waste of time and effort that it involves.

(2) A child may be sent to make purchases and will receive full weight and the correct quality of goods just as an adult.

(3) Sales are for cash ; and the dividend on purchases is capable of becoming a means of rescuing poorer members from debt.

(4) It forms the most hopeful form of organization against adulteration in articles of common consumption.

(5) Valuable training in the management of business and public affairs is given.

(6) The development of Co-operative Stores in the cities reacts very favourably upon the growth of agricultural co-operation along many possible lines of development.

Some College Co-operative Stores have achieved remarkable success in various parts of India. Following the example of some of the leading Universities of the West, such as, the Oxford, Dublin, Harvard and Madison Universities, educational institutions in India have recently awakened to realise the value of Distributive Co-operation. The first such co-operative store in India is, we believe, the Allahabad Hindu Boarding House Co-operative Store Ltd. registered on the 25th of April, 1915. This store works on the Rochdale plan. It stocks most of the articles of daily consumption, such as ghee, sugar, flour, rice, pulses, salt, kerosine oil, candles, soap, stationery etc. These are purchased wholesale, and in large quantities, and are advantageously retailed to members at the current market rates. Special arrangements have been made for the supply of pure milk : the society even contemplates having a dairy of its own. During the first two years it has worked at a profit of $6\frac{1}{4}$ per cent. The ideal which this society has set before it can best be described in words of Mr. A. C. Chatterji—
“Even if the society does not make high money profits, it

will render a valuable service by the growth of *esprit de corps* among the members, by teaching them business habits and methods, by securing a superior quality of goods at ordinary bazar rates and by spreading ideas of co-operation among the educated citizens of the province." Surely this is an ideal worth striving for and living for. The ideal may seem difficult to be realised ; but we are happy to be able to record that there is at least one College Co-operative Store in India which has nobly striven to realise this ideal and has well nigh succeeded in realising it. We refer to the Khalsa College Co operative Stores Ltd. at Amritsar—the most successful college co-operative store in India. The objects of the society are "to promote the economic interests of its members by means of business operations in common, and more specially by obtaining the ordinary necessities of life of good quality at reasonable rates ; to receive money on deposit from members, and to promote thrift and self-help and knowledge of co-operation." It is expressly declared in the bye-laws that "profit-seeking is not an object of the society." Members are of two kinds—(1) student members confined to students of the Khalsa College, and (2) ordinary members confined to members of the staff of the Khalsa College or students thereof over the age of 18 years. "The society is only two years old, and began with a sack or two of *atta*, an order for text books, and a contract with a few local *gujars* for milk. Now 100 buffaloes and cows come twice a day to be milked, the sack of *atta* has grown into a wholesale store with an annual turnover of Rs. 14,000, (now it amounts to Rs. 50,000) and the order for books into a regular shop, where every description of lesson and text books can be had at a fraction above cost price. In the bookshop alone over Rs. 20,000 worth of books have been sold in two years. Even more remarkable is the dairy. In the first eight months of last year 148 maunds of

milk were sold to the students at $7\frac{1}{2}$ seers to the rupee against a bazar rate which varied from 3 to 6 annas a seer. The difference represents a saving of well over Rs. 5000 a year to the members of the society ; and this, rather than the net profit, is the real measure of the society's material benefit. Altogether the society saves its members Rs. 8000 a year (in 1919 the store is estimated to have saved its members Rs. 16,000). This is as good as an additional grant from Government." (*From the Stores' Second Annual Report*).

It is interesting to note that the Khalsa College Co-operative Store has six departments *vis.* the Book Depot, the Provisions Store, the Dairy, the Cloth Depot, the Fuel Depot and a Labour Board for managing the society's farm. Each of these branches is worked by a students' sub-committee presided over by a Professor : indeed the Khalsa College Co-operative Store is a vivid example of an ideal College Co-operative Store built up and managed in true co-operative spirit by the joint and harmonious efforts of students and professors alike.

Similar attempts—though on a much less ambitious scale—have been made in almost all the provinces by several Colleges. Their objects, generally, are—(1) to assist the members of the Society in purchasing at reasonable rates such commodities as are generally required by them, (2) to carry on, in common, trade, both wholesale and retail, for the benefit of the members, (3) to encourage thrift, self-help and co-operation generally among the members and to promote the development of co-operative ideas and enterprise among them. The objects are high and wide, and the Societies have begun work in right earnest. The success of such stores depends largely on the self-sacrificing real and the spirit of selfless mutual service displayed by students and teachers alike : they will have to devote a part of their

leisure time and energy to the actual working of the society : no mere temporary enthusiasm, but enthusiasm sustained throughout the days, and the months, is necessary for the success of these stores ; as Lady Hamilton pointed out in her speech on the occasion of the opening ceremony of the C.M.S. College Stores in Calcutta—"you need faith and courage and perseverance. It is easy in the first flush of enthusiasm to undertake some great work, the testing time comes when difficulties and disappointments appear and slackness follows. Keep your faith bright and carry on as our soldiers are doing ; work steadily on, and the result will be certain. When you have begun the work of your Stores, keep in your minds the sage advice of Ruskin—'Around this temple, let the merchant's law be just, his weights true and his contracts guileless.' "

We should like to point out in this connection that the full benefits of a college co-operative store cannot be reaped unless a wholesale society composed of at least 10 college co-operative stores be started. We are not advocating here the Oxford plan of first starting a central wholesale store and then affiliating college stores to it. Let several colleges, say in Calcutta or in Bombay or in any other large centre of University education, simultaneously start their stores and federate into a central wholesale store. It will then be found that 100 maunds of rice can be had at cheaper wholesale rates than 10 maunds, 1000 copies of the same book can be had at a larger rate of commission than 100 copies. But such large orders cannot be placed by any single College Co-operative Store. If, however, all the colleges in a University centre simultaneously start co-operative stores, they can be federated into a central wholesale store (preferably associated with the University) which will bulk the orders of affiliated stores, call for tenders in the open market and buy the best things at the cheapest price. Such a cen-

tral wholesale store would be in a better position to deal with the market than any individual store. The ordinary traders may show a good deal of hostility towards such a store : in Dublin, for example, the newspapers which specially represent the traders showed a good deal of hostility towards it at the time of the establishment of the Dublin University Co-operative Store, and a newspaper indulged in witticism by publishing a cartoon entitled—"Delicious degrees given away for a pound of tea." But with the growth of the store movement such opposition is bound to die away.

The time may not be distant when such a wholesale store will directly encourage and foster the development of productive and distributive Co-operative Societies to supply its own requirements. Thus it would be advantageous for the Wholesale to deal with Industrial Societies to get its supply of clothes, blankets, shoes, knives etc., and with Agricultural Sale and Supply societies and Milk Supply Societies to get its huge supply of rice, vegetables, milk etc. Books and stationery may be purchased at their source and the middlemen's profits which are enormous—specially in the case of books—can be wholly eliminated. The result would be that our students would not only get good things, but there would also be a many-sided development of hitherto neglected forms of co-operation, and over and above all this, there will be a great saving in the students' cost of living in the city. This last is a point of great importance to students, their parents, and to the University itself. It should have somewhat of the effect of a universal scholarship.

The College Co-operative Store has the double advantage of benefiting the students in their college life, and of giving them a personal acquaintance with the principles and practice of a great movement with vast potentialities for the future good of our country. As a means for solving the many press-

ing economic problems of Bengal and of India, co-operation is unequalled ; and as a part of a world movement it cannot any longer be ignored or lightly brushed aside by educated Indians who, up till now, have not unfortunately realised the immense possibilities of this—the most potent economic movement in India to-day. "The obvious starting point for an alliance between co-operation and educated India is the college." Once the principle of co-operation is introduced into the seats of learning we may well look forward to a great development of co-operative ideas. The University age appears to be the most receptive age for social ideas and colleges ought to be made use of for the recruitment of the ever-increasing band of co-operative workers. Wherever economics is taught there at least should be a co-operative society for practical illustration of what may well be the most powerful economic force of the future. It would familiarise the members with practical economics. The demands made on modern universities to-day are much greater than in the past. It is demanded of them that not only are they to impart to students a general culture, but that they are to fit them to cope with the great economic and social problems which in modern times are throwing into the background all other problems. They are required to be practical as well as ideal in their methods. The education in economics, to be effectual, must be practical as well as theoretical. No one can learn science from books alone. Natural science as explained in the lecture-room must be supplemented by practical experiments in the laboratory. One could hardly imagine bacteriology, physiology or chemistry being learned without the use of the microscope, the dissecting knife, the crucible or the retort. And we believe it is equally true of economics that theory only becomes really illuminating when it is conjoined with practical undertakings such as college co-operative stores.

From what we have said above it may appear that the College Co-operative Store, like other stores, is a mere business concern which will enable its members "to eat their way into wealth, by means of dividends derived from heavy meals." They should rather be regarded "as a branch of a new social order, destined in the evolution of the Race to replace the old antagonistic order which is fast passing away." The knowledge which the students will gain of the practical working of Co-operative Societies will stand them in good stead in educating the members of rural societies. The spirit and principles of co-operation have to be infused into the very souls of our rural folk—and who can do it in a better or more sympathetic way than our Young Missionaries of Co-operation trained in the hard school of practical experience? The enthusiasm and the inborn spirit of social service in our young men will find ample scope for exercise. A College Co-operative Store will afford a common platform for teachers, students and ex-students to work harmoniously and whole-heartedly for the college and a new spirit of comradeship and corporate life will be born—a spirit which will supplant the spirit of aloofness and dull monotony which unfortunately characterises present-day college life in large cities.

It should not also be forgotten that a College Co-operative Store may be instrumental in promoting habits of thrift amongst our students—specially amongst those living in messes and hostels where there are so many opportunities for extravagance and improvidence. Such habits of thrift are not only of importance to the individual but also to the nation as a whole—and this has been very well demonstrated in Great Britain during the terrible days of the war when everybody from His Majesty the King-Emperor down to the common day-laborer helped the cause of humanity by practising thrift and economy in his daily life. Such habits of thrift can best be acquired at a period of life when the

opposite tendencies hold sway over youthful minds. The College Co-operative Store offers a unique opportunity for controlling those tendencies and for acquiring those habits. If students could be induced to deposit in the Store a certain percentage of what remained of their monthly remittance from home after paying College and Hostel charges, they will not only be learning habits of thrift, but they will also be creating the nucleus of a fund which will help them out of financial difficulties on many an emergent occasion; and if this fund is not drawn upon, but is allowed to accumulate uninterruptedly throughout a student's college career it may amount to a decent sum—specially in the case of the scholarship-holder—which will give him a good start in life and an advantage over his thriftless and improvident brother.

Finally—if the student wants good things at reasonable prices; if he wants to have fuller and more wholesome meals and thus improve his present dietary (specially in the messes and hostels) which is insufficient for the healthy nourishment of the body and the brain; if he wants to promote habits of thrift and avert pecuniary troubles; if he wants to have practical training in co-operation and learn business habits; if he wants to learn the first lessons in self-government; if he wants to foster the corporate life of his college by rendering mutual service; if he wants to have a common platform where teachers, students and ex-students, Europeans and Indians, Hindus, Mahomedans and Christians—all can work harmoniously and in a spirit of mutual good will and forbearance; above all, if he wants to popularise and develop the co-operative movement in his province he should bestir himself to start a co-operative store in his college and reap all the benefits mentioned above.

CHAPTER XII.

CO-OPERATION AND INDUSTRIES.

Co-operation and Cottage Industries :—In this country there are two schools of thought in the matter of industrial progress,—one holding that we should neglect our home industries and take at once to the factory system, the other maintaining that our artisans and craftsmen should continue to work in their cottages as before and should not be dragged into the smoke-laden and morally unhealthy atmosphere of the large cities and mill towns. The apologists for the rapid industrialisation of the country ignore the fact that the source of supply of factory labour in India is almost entirely rural, that the rural recruit for mills is “not at all cut out for wholesale monotonous and wearying mill-work in more or less close and shut up, unhealthy rooms, at a steady grind, away from his home and little field.” The protagonists of cottage industries, on the other hand, fail to realize that they cannot, with all their efforts, cover more than a very small portion of the space to be provided for, and that they cannot set back the tide of Western industrialism so long as India maintains her relations with the rest of the world.

The fact is that there is no real conflict between the two : both can exist side by side. In Japan, in Russia, in Germany and in many other industrially advanced countries the home industries have not been ousted or superseded by the power industry. The small industry can hold its own with the big power industry provided that its devotees select the right class of articles for manufacture. As Mr. Collins points out in an article in the *Bengal Economic Journal*, “the hand-loom can beat the power-loom in mere mechanical efficiency at least in all types of work in which constant stoppages, an intricate

pattern or the fineness of the material, necessitates a slow rate of progress." Power industry is indeed increasing rapidly and making a great show of its growth ; but the small industry is advancing no less steadily although with less of blowing of trumpets.

Moreover, India has need of her home industries. "The dweller in the country, in his more or less isolated village with a field or two to cultivate, needs a small home industry, though not probably, as a rule, as a main employment but as a make-penny supplementary occupation, to fill up time which he would otherwise waste and earn him some additional rupees." The conditions of our agricultural operations leave the cultivators out of employment for nearly half the year : this vast amount of surplus unemployed labour ought to be utilized in our rural areas to improve the economic condition of the cultivators. Besides, the horrors of famines, due to drought or failure of crops in a predominantly agricultural country like India, can to a large extent be mitigated if the people have a subsidiary occupation to fall back upon.

Apart from those who carry on some cottage industry as an occupation subsidiary to their main agricultural occupation, no less than 1,66,92,00 people are exclusively engaged in small workshops and home handicrafts in different parts of India. The very existence of these cottage industries, in spite of so many depressing factors operating against them, proves their innate vitality and their suitability to the genius and temperament of the people. We should not forget the unwillingness with which a born potter or weaver leaves his ancestral employment and village home to join a factory ; so strong are the hold of ancient family occupation and the ties of caste and joint family that he scarcely loses his connection with his ancestral home. Apart from attachment to the ancestral home, there is the love of freedom and the dislike of the discipline and of the regular hours of factory life

which are common to all factory laborers throughout the world. Above all, the tropical climate of this country makes strenuous exertion in factories a heavy strain on the ill-fed physique of the laborer and leaves him open to dangers and diseases of slum life. Moreover, it is in the cottage industries of India that the creative genius of the people find their true expression and their age-long hereditary traditions and training find their proper embodiment.

A cottage industry in India is generally carried on in one or other of the following ways—

- (1) Poor but independent workmen, possessing only the most primitive apparatus of production and having a very small capital of their own, purchase raw materials separately in very small quantities and at the worst retail rate; after manufacturing articles out of them by means of some extremely laborious process they take the finished product separately to the market or sell them to the village *dalal*. Frequently, these people are compelled to sell the articles at a very low price simply because they have no surplus capital with them for purchasing a fresh supply of raw materials for further production of commodities. They cannot hold up their wares for a better market.
- (2) Poor workmen with no capital of their own take advances from the *mahajans*, both in cash and in kind, at exorbitant rates of interest, and are compelled to sell their finished products to the *mahajan* at a price dictated by the *mahajan* himself—and in the majority of cases this system does not leave to the worker even his bare subsistence wages.

Sometimes the workman works for the *mahajan* on the *bani* system *i. e.* for fixed wages only—both the raw materials and the finished products being the *mahajan's* property. In such cases the *Mahajan* often advances to the workmen a sum of money, generally free of interest, on their undertaking not to work for any person other than the *mahajan* himself during the pendency of the loan. But as the wages fixed are quite insufficient to meet the absolutely bare necessities of life, the workman's indebtedness to the *mahajan* continues throughout his life. Instances are not rare where a workman is found to be repaying the so-called debts contracted by his grandfather.

- (3) A master workman, owning the instruments of production, sets up a factory and engages the services of fellow workmen. He finds the necessary capital, supplies the requisite raw materials and arranges for the sale of the finished products. The net profit which remains after paying interest on the capital invested, the price of raw materials purchased, and expenses of running the factory and selling the products, is divided between himself and his fellow-workmen. In certain cases, however, the other workmen get fixed wages only and the balance of the profit goes to fill the pocket of the Master-workman.
- (4) In certain home industries, such as the manufacture of conch-shell articles, brass and bell metal utensils—different stages are worked by persons who get wages according to their skill and workmanship. In these cases also the factory belongs to a Master-workman who is responsible for the capital re-

quired and for the marketing of the finished products.

These are the cases which fall within the purview of the Co-operative Societies Act. But of these cases, again, where the factories are run by, and under the control of, a Master-workman on the profit-sharing system, the lot of the other workmen does not appear to be so unfortunate as in the other cases. Here the industry is somewhat systematised, although there appears to be room enough for improvement in the direction of introducing modern and up-to-date appliances. In such cases, therefore, we should proceed with caution so that we might not create unnecessary disturbance or rouse unfounded suspicion. It is the cottage worker of the first two classes mentioned above who require the help of co-operation for the betterment of their productive processes and the methods of sale of their finished products.

If we analyse the conditions under which these independent cottage workers carry on their work we find that they have certain rather formidable adverse conditions to battle with ; these may be briefly described as follow—

- (1) The supply of raw materials is controlled by village merchants or mahajans who advance them to the cottage workers at exorbitant prices.
- (2) The cottage workers have to sell their manufactured products through the same village merchants or *mahajans* at inadequate prices.
- (3) Most cottage workers are deeply indebted and pay rates of interest which make their extrication by their own efforts impossible. This condition prevents them from putting their heart into their work. Owing to their hopeless outlook they remain, as a rule, illiterate, unenterprising, and unmindful of the duties of life.

- (4) The technical improvements, which would enable them to increase their output and improve its marketable qualities without destroying the special characteristics of their hereditary craftsmanship, are not generally known to them.

The functions which can be performed by co-operative societies are—

- (1) Purchase of raw materials in large quantities at wholesale rates ; their distribution among the members ; and the recovery of their price after the sale of the products.
- (2) Provision of cash loans at reasonable rates of interest for the purchase of tools or materials, for livelihood during the slack season, and for necessary ceremonial, social and domestic expenses.
- (3) The establishment of an agency for the sale of members' products, and, during the slack season, for accepting the products in hypothecation, and granting advances against them for further continuance of members' productive activities.
- (4) The provision for state aid in the shape of expert advice, technical training and demonstration exhibitions of members' products.

The best method of enabling the cottage workers to enjoy the blessings of co-operation is to divide the province into industrial blocks and to found an Industrial Central Bank or Union in each of them. These bodies should make it their business to organise industrial co-operative societies, to finance and supervise them (of course, in collaboration with the departmental staff), and to help them in procuring raw materials and disposing of their finished products. The first such Union was started in Bankura which is a great centre of the weaving industry ; and recently two similar Unions have been started in Dacca and in Krishnagar. We may now proceed to describe

the growth and achievements of the Bankura District Co-operative Industrial Union and we think such a study will reveal the difficulties as well as the possibilities of such organizations in general.

The Bankura Union was registered towards the end of the official year 1917-18: it began with a membership of 14 weavers' societies; in the course of a year 27 more societies joined and these 41 societies had about 520 members, about half of whom worked whole time for the Union. The share capital of the Union originally consisted of about Rs 5,000, subscribed by individual preference share-holders, and a sum (exceeding Rs 600 at the end of the first year of working of the Union) subscribed as ordinary shares by the weavers, each man giving one anna in the rupee from the wages he earned through the Union. At the end of the official year 1920-21 the number of affiliated societies was over fifty, the total working capital was about Rs 25,000, and the paid-up share-capital exceeded Rs 10,000 of which nearly half belonged to the weavers themselves—the system of deducting one anna in the rupee from the wages and crediting this to share-capital having produced this effect. In the course of the year ending on June 30, 1920, the Union sold goods to the value of Rs 1,25,495 and its profits during the year amounted to Rs 7,351. During the year, the Union provided employment for 550 families of weavers and received from them finished cloth worth Rs 1,37,668. It paid to the societies about Rs 20,000 in wages and received back Rs 1,155 (a deduction at one anna in the rupee towards its share-capital. It is significant to observe that though the Government of Bengal had guaranteed the Union against loss up to Rs 25,000, the Union has had no occasion to use it and the Bengal Registrar, in his 1919-20 Report, observed that "the present financial position of the Union makes it unlikely for it to require any Government guarantee in future."

In the absence of a central sale depot the Union and the Registrar's Department have had to adopt various expedients to dispose of the products turned out by the weavers not only of the societies affiliated to the Bankura Union, but of the other 67 weavers' societies in different parts of Bengal. Thus it secured orders from the Munitions Department, the Tea Gardens and from other big customers. It has also set up a small depot in its Calcutta office in charge of an Inspector who keeps himself in touch with the Union and the Calcutta market. The chief problem now is to find a good market and a steady supply. The Indian Industrial Commission have expressed themselves on this point in the following terms—"The problem is to find an outlet for his (weaver's), increased production, and efforts to improve the lot of the handloom weaver must end in failure, unless attention is concentrated, to a much larger extent than has hitherto been usual, on commercial questions, which involve the purchase of raw materials, the selection of suitable designs and patterns and the establishment of commercial agencies for disposal of goods". (para 144 of the Report). To keep the Industrial Unions (of which we have already three in Bengal) well posted with commercial information and to help them in disposing of their stocks it is necessary—so far as Bengal is concerned—that there should be a central institution in Calcutta—a Provincial Co-operative Industrial Union. Such a body will be in a position to take expert advice in matters of design and sources of supply and sale from the Director of Industries and the Department of Commerce and to communicate the advice and information to the Mofussil Unions. It could maintain a parallel list showing the places where certain articles are produced and the places where they are consumed. The information furnished by such a list would be of immense advantage to the societies, for they could enter into direct correspondence with consumers and could send their products to them,

In Bengal we have already in the "Bengal Home Industries Association" a nucleus for the future Provincial Co-operative Industrial Union. The Association is being utilized as a marketing agency of the co-operative industrial societies, but it is not in a position to assist them much as there is no sort of organic connection between industrial societies and the Association, nor are the industrial societies represented on its management. Proposals have frequently been made for its conversion into a Provincial Co-operative Industrial Union: the Association enjoys a substantial Government subsidy; it has built up a reputation for honest dealing; its sale depot occupies one of the best sites in the business quarters in Calcutta. Nobody will lose, but the industrial co-operative movement will be considerably strengthened and consolidated, by the conversion of the Association into a duly registered co-operative union of industrial societies. The establishment of such a Provincial Union will make it possible for us to follow Mr. Wolff's, advice to look wider afield and to act up to the proposal* of his London merchant friend *viz.*—"If a consignment of Indian goods—of general utility—were to be delivered to him 'on sale or return' he would, as an experiment, make a very good show of the wares by themselves in a distinct department"—the Indian Department—on the model of the "Japanese Departments" which have proved so successful in popularising Japanese home industries amongst English customers.

In the Punjab where, as in almost every province of India, the weavers form an important class of cottage-workers, there are about 60 weavers' societies, and a central institution called the Weavers' Central Co-operative Stores Ltd, located at Amritsar. This central store was registered in 1917 and is a federation of weavers' societies. It finances the weavers'

* The Bombay Co-operative Quarterly, Vol. II, p. 137.

societies and carries on banking and sale business. It has a working capital of Rs. $1\frac{1}{4}$ lakhs most of which is on loan from central co-operative banks the directors of which have always shown the greatest sympathy with the movement to uplift the weavers. The government, too, has advanced a loan at a moderate rate of interest, while the balance of about Rs 16,000 is made up by share contributions and deposits from societies and by the reserve to which all the profits are placed. The shares are of indeterminate number and of the value of Rs. 100 each of which Rs. 20 is to be paid with the application for membership and the remainder in four equal annual instalments of Rs. 20 each. "Registered Weavers' Co-operative Societies may be admitted to membership of the stores, after election by the managing committee subject to confirmation of the general meeting. The Registrar or a Deputy or Assistant Registrar, generally or specially nominated by him, is also eligible for membership. The latter is *ex-officio* president and a member of the committee, the remaining five members being elected annually at the general meeting. At present, all the members of the managing committee, with the exception of the president, are weavers and it is hoped that the stores will soon be able to have a non-official president. The manager is appointed and paid by Government and works under the direction of the committee. Urgent and routine business is disposed of by him either independently, or in consultation with the president; but on all important matters the action taken is subsequently laid before the committee for approval. The latter take a keen interest in the working, and are not slow to criticise the manager's action when dissatisfied with it. In addition to the manager, there is an assistant manager who is paid by the stores; and there is a proposal under consideration to appoint an educated weaver as a travelling agent to bring products to the notice of Government

departments, business firms, and the general public and to canvass for orders. Recently, exhibitions of cloth at the Lyallpur fair, at the Dalhousie club, and at conferences showed that people are prepared to take an interest in the work and to place orders."

"The 'field' staff consists of an industrial inspector, three sub-inspectors and three supervisors—all paid by Government : with two exceptions, these are weavers. A weaver B. Sc. is now in training as a candidate inspector. The sub-inspectors do propaganda and teaching work, and audit and check the societies' accounts. The supervisors keep the accounts of the Unions, and the shops attached to them, they also help the societies which have not got literate secretaries. Most of the societies are of cotton weavers who prepare *Khaddar*, *Dosuti*, *Ghabrun* and *Susi*. There are two societies of Duni weavers in Sialkot city whose bed Dunies are widely popular, and are often purchased in large quantities by Government for the Army*."

The stores charged a commission of Rs. 1/8 per cent on the goods of the societies sold by it. A rebate on the purchases from the stores by the societies was to be given out of the profits after the completion of five years from the date of registration. No dividend was to be declared until after this period, and it must not exceed 6 per cent per annum.

As in Bengal and the Punjab, so in the other provinces as well, weavers' co-operative societies are being formed in large numbers ; thus in Madras there are 32 weavers' societies : some of them are mere credit societies, others are for the purchase of yarn and dyes, their manufacture into cloths and the joint sale of the finished products. The Madura Sourashtra Co-operative Society is one of the most flourishing

* From an article on "Weavers' Co-operative Societies in the Punjab" by Major W. W. Powell I. C. S. in the *Bombay Co-operative Quarterly*, Vol. V. pp. 125-126

weavers' societies in Madras. It has a membership of 756 and a paid-up capital of Rs. 23,245. Raw materials such as yarn and dyes were purchased at a cost of Rs. 2,64,569. Stock worth Rs. 2,64,345 was sold at a gross profit of Rs. 8,035. Other connected activities of the society such as manufacture of dhories, shirting cloth, sarees etc gave the society a profit of Rs. 1,503 on transactions amounting to Rs. 27,817 in all. In Bombay there were 44 weavers' societies at the end of the year (March 31, 1921); they had a membership of 2,850 and commanded a working capital of Rs. 2,36,344. Of all the weavers' societies in Bihar and Orissa the Bhagalpur and Ranchi weavers' co-operative stores deserve special mention. The former had, on the 31st May 1921, a working capital of more than Rs. 40,000 and a membership of about 150. The net profits of the stores during the year was Rs. 1,396. The functions of the stores are to buy raw materials, supply them to members and purchase the finished products of members. The sale and purchase are extended to non-members as well but they are not entitled to any share in the profits. It also proposes to have affiliated to it all the weavers' societies in the town. It has established agencies for the sale of cloths in Bengal, Bihar and the United Provinces. The Ranchi Weavers' Co-operative Stores supplies yarns to members on 15 days' credit. During the year it sold yarns worth Rs. 27, 270 indented direct from Calcutta. The hawker system for the sale of cloth has now been abandoned and new and profitable markets have been found in the Assam Tea Gardens, Jemshedpur, Patna and Calcutta. During the year it sold cloths worth Rs. 23,566. It has succeeded in teaching many of its members the use of fly shuttle looms and the goods produced by its members are far superior to those brought for sale in the local market. The working capital was Rs. 17, 499 and a profit of Rs. 2,766 was made.

So far we have described the progress and achievements of weavers' co-operative societies in the several provinces of India, because, next to agriculture, weaving is the most important and universal cottage industry in India. Besides weaving, however, there are various other typical home industries characteristic of different localities and different communities and castes. No systematic survey has yet been made of the various cottage industries still extant in India; but, still, provincial surveys have been made in some cases and from them it is possible to make out a fairly comprehensive list of such industries: we need not however, give such a list here; it will serve our purpose if we attempt a brief survey of the co-operative efforts made in the provinces to revive the cottage industries other than weaving.

Thus in Bengal we have societies of cocoon-rearers in Malda and Rajshahi: these are really credit societies, but the idea is to organize compact groups of them, and then attempt to apply co-operation to the members' trade, erecting central reeling sheds and improving the reeling apparatus. The other so-called professional societies of blacksmiths, oil-pressers, carpenters, spoon-makers, basket weavers, lac-growers etc. are also really credit societies. It must be remembered, however, that credit is the easiest way of introducing co-operation amongst these backward people and it is hoped that co-operative credit will educate them up to applying co-operation to their trades. There are various other cottage industries in Bengal which can be developed by the adoption of co-operative methods—

- (1) Among the brass and bell-metal workers in almost every district of Bengal societies may be formed for the introduction of labour-saving appliances and for the joint sale of the utensils.
- (2) Societies may be formed amongst potters for the production of a better class of articles and

among carpenters for the supply of wood and for the sale of finished products.

- (3) The Mother of Pearls Button industry, recently started at Dacca, can be improved and developed by starting co operative societies for the purpose of getting better classes of shells and also for the introduction of labour-saving machinery and joint sale of the articles manufactured.
- (4) Carpet-weaving and blanket-making are also industries which can be organised co-operatively.
- (5) Attempts may be made to organize societies at suitable centres amongst blacksmiths for manufacturing agricultural implements of an improved kind at a cheaper price. Improved tools and improved designs may be introduced among these men through the medium of co-operative societies.
- (6) Mat-making is another industry in Bengal which can be developed on sound lines by co-operative methods.

In Bihar and Orissa there is an oilman's society which purchases oilseeds which are given out to members, who press the same and sell the oil. There are, besides two carpenter's societies, one blacksmith's society, four tailors' societies, two potters' societies, and eleven shoemakers' societies. The Khurda Bank proposes to organize co-operatively such home industries as cutlery of Dhalapathar, silk cloth of Olsing and stonewares of Bhubaneswar : in other areas, too, the Central Banks are making good efforts to organize co-operative societies for the development of local cottage industries.

In Madras there are not many co-operative home industries societies except those amongst weavers ; in Bombay also there has been no remarkable development along this

line, there being only a few weavers' societies ; three new industrial societies were registered a year ago—one of them is composed of coppersmiths of Poona, another of a number of dyers in Ahmedabad ; the third is a soap-producers' society in Bombay. But the possibilities for the co-operative development of cottage industries are as great as they are in Bengal or the Punjab : this will be evident from a perusal of an informing article on "Rural Secondary Occupations and Cottage Industries" published in the *Bombay Co-operative Quarterly* (December, 1921) : the writer gives a long list of cottage industries which can advantageously be organized on co-operative lines. The list includes, among others, the following articles of manufacture—coir goods, paper pulp, basket and mat, lac and lacquer work, tins and tin toys, bricks, tiles and pottery, china pottery and toys, glass-making.

If proper enquiry be made, it will be found that every province of India has her own special characteristic lines of cottage industrial work. As a first step in their co-operative development a regular survey should be made of the existing cottage industries in every province of British India : this work should either be performed by the Local Governments or by a committee appointed by the Central Government of India. Such a survey will reveal the conditions under which our cottage works ply their humble trade and will be helpful in suggesting a systematic co-operative plan of their simultaneous development in all parts of India.

Co-operation and Capitalistic Industries :—In the last few pages we have emphasized the need of industrial co-operation with reference to cottage industries but the utility of co-operation for Indian industrial progress goes even beyond the modest scope thus assigned to it. It is a mere truism to say that factory industry in India will never be placed on a proper basis until the blessings of co-operation have

been brought to the very doors of the urban factory laborers. One of the greatest hindrances to the progress of Indian industry is the "paucity of labour"; this mysterious phrase does not imply any inadequacy of mere human material. Sir Harcourt Butler has accurately expressed the true significance to be attached to the phrase—"At present our labour is immobile. The bulk of it is recruited from rural areas and is uncertain and unstable." And well may it be so. What with poor housing, want of congenial surroundings, absence of any *esprit de corps*, with high costs of living and still higher usury eating into his slender pay, there is no wonder that labour from the country does not take to urban conditions. It is for co-operative efforts to remove his disabilities and make him take more kindly to urban life. The efforts of Debt Redemption Committees such as have been started in Bombay should enable him some day to call his wages his own. Housing societies among working classes should acquire for him the possibility of living in a decent cottage. His moral would be raised by belonging to a co-operative society and then we shall hear no more of "paucity of labour". Indeed, thus fortified the labourer will be able to bargain with his employer on terms of greater equality and independence. The Factory Acts, too, on which the welfare of labour depends to so great an extent, will be better enforced when the labourer will have a co-operative organisation of primary societies, unions and federations to give voice to his grievances. In short, the organization of labour on co-operative lines will serve many of the functions of Trade Union organizations without importing the excesses of the latter movement and will thus benefit at once capital and labour. We must not forget that there is a borderland between co-operation and trades unionism and they have some beneficial features and functions in common.

Incidentally, the recommendations of the Indian Indus-

trial Commission, if followed out, will open fresh fields for the introduction of the principle of Co-operative Production. Where the Commission has advocated provision of current finance for middle class entrepreneurs, it might have added that such provision of capital should be granted the more readily in cases where production is carried on by groups of persons collectively and on co-operative lines. There is an additional advantage to government in subsidizing such co-operative production, since the loans would be backed up in these cases by the collective liability of the members of the group working jointly. In many cases of the kind, for instance in the matter of small factories started by groups of weavers, there is the additional advantage of the pooling of the skill and resources of the joint workers. In any case when such financial help is given by the State, our co-operative industrial societies should have a special claim on it, alike in the interest of the lending Government and of the borrowing bodies. If Government is going to take a hand in the work of financial irrigation, the ready-made streams and channels which have already been formed by co-operation should be advisedly utilized in the work of such irrigation.

We shall now indicate some of the opportunities for introducing the principle of Labour Co partnership in India. The Industrial Commission has made some valuable suggestions as to the powers to be retained by Government in those cases where industrial undertakings receive state aid. Such aid can be rendered by the State in various different ways, *e.g.*, by way of guarantee of dividend or by subscription to the share capital. It is wisely emphasized in the Report that in such cases Government should see to it that the opportunity of subscribing to such undertaking is fully open to all classes of the public. Government should also in such cases control the allotment of shares, for example, by formulating rules designed to give an opportunity to small investors to

join in the industrial enterprise. The Government and the public whom it represents should obtain a *quid pro quo* for the assistance given to the industrial undertakings.

We accept such dicta of the Industrial Commission and welcome the proposals so far as they go. But we cannot help observing that the Commission should have gone much further and should have suggested that power should be reserved in such cases for the initiation of the principle of labour co-partnership into Indian Industries. India is about to begin a new stage in a vast Industrial Revolution, and such Revolutions, though they are on the whole beneficial to the nation, have also dangers for labour. The industrial history of the most advanced nations has shown the need of labour co-partnership both in the interests of capital and of labour. Some of the best firms abroad have seen that the only way to reconcile the interests of capital and labour is to introduce such co-partnership or profit-sharing. In India we should take opportunity by the forelock and prevent the very beginnings of any such antagonism between capital and labour. The labour question is becoming very serious throughout the world and we should lay down a policy at the start which should eliminate the possibility of such dangers arising in our country. If the Government is to control the allotment of shares, as the Commission has said, why should not some of them be reserved to be handed over to labour in part payment of wages? If the opportunity of subscribing is to be kept fully open to all classes, what class has a greater right to that privilege than the operatives? If the working classes are also induced to become "small investors" in concerns they will work the harder for what they will come to regard as their own business. When the Government subscribes to the share capital of a firm, as urged by the Report, it would be the best policy to keep the shares in hand to sell them as time goes on to the

operatives on favourable terms and in small amounts. The Indian Government has a unique opportunity of furthering the common cause of Industry and Co-operation such as perhaps was never vouchsafed to any other Government. In most other countries the Industrial Revolution has generally been begun and accomplished by the unaided efforts of the entrepreneur class. In India we have the opportunity of benefiting by the mistakes of these nations. It is a great chance for initiating the beginnings of Industrial Co-partnership in India and of starting a new chapter in the great history of Co-operation.

Co-operative Labour Societies.—The labour co-operative societies, generally known as *Brachianti*, represent one of the most original forms of Italian co-operation. Formed among workmen, especially among labourers in the building industry, they arose with the principal object of withdrawing labour from the yoke of common contractors and themselves accepting contracts for public works directly. In certain districts—Emilia, Romagna—where there is an excessive labour-supply, they also aim at lessening unemployment, by obtaining the concession of works from the State and distributing the accompanying employment. These co-operative societies undertake by preference the making and upkeep of roads, bridges and canals, the construction of water-works, the execution of works of land improvement and irrigation and the arrangement and transformation of lands, etc. Their development has been much helped by the passing of the special laws as to the contracts of co-operative societies.

Though the movement is 40 years old it is only 20 years since it began to take root. At the end of 1920 there were about 2,500 societies, of which nearly three-fourths belonged to the socialist organization. Since the war the growth has been extremely rapid, and the root cause of this is said to be the

desire for independence, which is a profound and widespread effect of the war. Another and more obvious cause is the lavish assistance given by the Italian Government through the National Institute of Credit. Government has been quick to realise that there is no better sedative for industrial ferment than the labour society.*

The method by which such societies work is thus described by Mr. Otto Rothfeld:†—

The society itself is governed by three smaller bodies or committees. There is, first of all, a committee composed of workers only which is in sole charge of the policy of the society. There is, secondly, a small supervisory committee responsible to the General Meeting whose duty it is to audit accounts, see to book-keeping, and generally control the observance of all rules and regulations. Thirdly, there is also a technical committee which usually consists of an expert engineer and a secretary with some legal training whose business it is to look after the actual contracts, the settlement of wages and salaries, and the distribution of work. Such being the governing bodies the next thing is how the work actually undertaken is to be distributed by them amongst the members of the society. But before this can be fully considered, another practical question very constantly arises. The societies are of course composed in most cases of members of one trade or one branch of a trade only. This is necessary in order to ensure solidarity, discipline, and compactness. But as a practical affair, it is obvious that nearly every contract implies the employment of labourers of various trades. A house, for instance, needs for its building not only bricklayers, but also masons, stone-cutters, carpenters and so on. A bigger contract like the construction of a port obviously would

*For further details see (1) Mr. M. L. Darling's "*Co-operation in Germany and Italy*," and (2) Mr. C. F. Strickland's "*Studies in European Co-operation*."

† *The Bengal, Bihar & Orissa Co-operative Journal*, Vol. VII, No. 1.

require a still larger number of specialized trades for the completion of the contract. Hence the next step to be taken by any society of this class is to combine with other similar societies of different but kindred trades. This difficulty has been grasped by combining such societies of allied trades into federations, and where a federation exists, it is the federation which tenders for the contract and then subdivides the contract amongst the individual societies and not the individual members themselves. This overcomes the second difficulty. Another difficulty remains. Employment is not always steady. It fluctuates in each trade in turn. At one moment it is possible that all the brick-layers in a given area may not be sufficient for the work required, while carpenters may be sitting at home without employment. A month later the reverse may take place. And it is not possible for a society to exclude from its membership willing and competent workers who wish to join. The society has therefore to face two possibilities : firstly, the very probable result that its total membership may in general exceed the amount of work available at any moment, and secondly, that at times even its whole membership may be insufficient to cope with a large contract. They have provided against the one possibility by allowing outside labour to be engaged when necessary. In that case the non-members who are employed obtain weekly wages but do not obtain any shares in the profits. The other case is met by a system of giving employment to members by rotation ; so that even in the slackest times each member at least obtains some employment in his turn although he may have to seek outside employment when the society is no longer able to find sufficient work for him. The profits of the society are ultimately divided in proportion both to the capital subscribed by the member and to the number of days worked by him. It is perhaps doubtful whether in the present condition of Indian labour, especially in view of the illiteracy of most of the

labourers and the consequent want of understanding of joint purpose and of self-sacrifice of the individual for the whole, it would be possible for such societies to combine effectively into federations or to introduce a rotation system without dispute and acrimony. Yet if such societies are to be founded, and their need is urgent especially in industrial centres like Bombay, these difficulties must be met by a slow but devoted and energetic educative propaganda.

In Italy in the past, as will also be the case in India in the future, two main difficulties met these societies at the outset of their career. The one, superficially more important, was to supply them with capital. The other ultimately the greater was to supply them with discipline. The difficulty of capital was not solved in Italy until Government finally decided to abandon its policy of non-intervention and by progressing beyond old-fashioned Liberal ideas, agreed to adopt the policy of rational and moderate State aid. Since that change of policy there has been no real difficulty in finding capital. Capital is provided partly by the *Istituto Nazionale di Credito*, a bank which is under very strict Government control and which is largely financed by Government assistance given partly by way of grant and partly by way of guarantee. In addition direct Government grants are made to such societies. And lastly advances are made by co-operative banks to such societies from time to time against certificates from the public bodies with which they have contracted. To those who know the Italian character, however, it might seem an even greater labour to overcome the other difficulty of discipline. No nation in the world can be more individualistic and broadly speaking less amenable to control or obedience. Yet the result shows that discipline has been achieved in these societies. This has been largely done by one device. The workers are divided into sections of about twenty. At the head of each section is

a foreman who is nominated by the Executive Committee subject to the approval of the General Meeting. This foreman is responsible for the supervision of the men and for the preparation, checking and payments of pay-sheets. This device coupled with the fact that expulsion is immediately resorted to in any case of quarrelling or slackness has proved sufficient to enforce that strict and rigid discipline which is necessary in a co-operative society of this type. Not only are members liable to immediate expulsion in every case of friction or disobedience, but the society itself is compelled to go into liquidation if its membership should at any time fall under twenty. It may be added that the foreman is paid by making each worker in the section pay each day one per cent. of his weekly wages to the foreman. In this way the workers feel that the foreman is their own man, while at the same time the foreman knows that he has the Executive Committee behind him and that he can at any moment get an insolent or lazy workman expelled from the society. In India the difficulty would be to find on the one hand a foreman sufficiently strong to control his section and on the other hand an even greater difficulty of getting an Executive Committee which could be counted on to support its foremen instead of yielding to the easy temptations of leniency and *meharbani*.

The attention of Indian co-operators to the new co-operative enterprise has only recently been drawn ; and there are only scattered examples of this type of co-operative institution in some of the provinces of British India and in the Kashmir State. We are indebted to Mr. C. F. Strickland for a description of the co-operative labor societies in Kashmir.* A group of societies for laborers has been formed under the patronage of the State Forest Department of Kashmir for

* The Bombay Co-operative Quarterly, Vol. V, no. 3.

carrying on the work of the extraction of timber from the forests of the Kamraj Division in Uttarmachipura Tahsil, and of the transport of scantlings and sleepers by road and river to the towns—a work which had hitherto been carried on by contractors, great and small, some of whom were as remarkable for the scamped and inefficient work as for the extravagance of their rates.

In August 1921 were registered ten co-operative societies for sawyers, and one union ; the number of affiliated societies has subsequently risen to 22. A society consists usually of 20 members, that is, ten “pairs” of sawyers, and each member pays Re. 1 monthly as share money until he has accumulated 12 shares of Rs. 10 each with unlimited liability. A society takes a share of Rs. 500 in the Union with four-fold liability. The function of the union is to obtain contracts, and distribute the work among the societies, to receive advances from the contract-giver, to pay them out to the societies, and debit them against the work done. The first societies, formed at a time when the contracts for the year had been given out, were only able to obtain a section which a contractor had left unfinished on account of its difficulties. They cleared up the mess left by him, and were found to have done 98 per cent of first class work. Other contracts were obtained, and the net result of a year’s working is that contracts were executed at a cost of Rs. 40,000 for which contractors would have charged Rs. 60,000, though their sawyers would have received only Rs. 25,000. The Forest Officer in September, 1921 declared himself content with their behaviour and hoped for an extension of co-operative activity. These successes in the distant regions of Kashmir should open the eyes of Co-operators in British India as to the possibilities of this new movement for the emancipation of the laborer from their *Sirdars* and contractor-employers. The local Governments, district boards and

municipalities can give an impetus to this movement by encouraging the formation of labor societies and by giving them the contracts for work in forests, for the construction of public roads and buildings, for the clearance of canals, etc : we are happy to be able to record here instances where local authorities have actually rendered such help to newly started labour societies. The Salem Scavengers' Society was able to secure the contract for supplying bullocks to the municipality for the conservancy carts. The Puttur Labour Union (South Kanara, Madras), the first labour society to be started in India, began work in 1919 and has had a successful year (1920-21); its activities are full of promise. With a small share-capital of Rs. 200 and a temporary accommodation of Rs. 3390 from the Central Bank, the Union undertook four pieces of road repair work covering a length of 36 miles at a cost of Rs. 6, 544 and earned a net profit of Rs 2, 212. Following the lead of Puttur a society of salt-workers has been started at Mauripur near Karachi. This society has been allowed to tender for the contract offered by Government for the transport of salt from the works to Karachi. Similarly, the Salt Loaders' Society at Madras has received the loading contract from the Salt Department and has been working satisfactorily during the last four years. A new society for laborers has recently been started in Broach for undertaking contracts for road construction and the repair and building of houses.

There is no doubt that the success of these societies will lead to a further growth in their numbers. In Italy, masons, brick-layers, cement workers, dockers, carpenters, day laborers, carters and many other classes of manual labour have organized themselves into societies to eliminate the contractors and undertake contracts themselves. Both urban and rural India afford ample scope for the

development of labor societies : the construction of good roads, the digging of tanks, the clearing of jungles, the building and repair of houses, the laying of railway lines—not to speak of large irrigation or industrial projects—all these are now placed in the hands of big contractors who get their supply of labour through the medium of the *Sirdars*. If the laborers specialising in each line organized themselves into labor societies, the contract-givers will get better work for lower payments, and the laborers will get more than they did formerly. The local and district boards can get rural development schemes carried through quickly and efficiently, if they encourage the formation of labour societies within their areas and give them their contracts for rural development work. In this way the problems of unemployment, sanitation, water-supply, means of communication can be simultaneously solved. Moreover, these labor societies will bring prosperity and contentment to the laboring classes : and peaceful labour means progressive industry which again implies contentment in the country at large. Economic, political and social considerations thus equally urge the progressive development of labor societies in all parts of India.

CHAPTER XIII.

CO-OPERATIVE HOUSING.

In Calcutta, Bombay, Karachi, Madras, Poona and Rangoon—in fact, in almost every big city in the Empire—the housing problem has, during recent years, grown in acuteness. In most parts of Great Britain and in Dublin and Belfast also, there is said to be an appalling shortage of houses, and the Joint Committee on Labour Problems after the War declare “that no one but the municipalities and the National Government can possibly shoulder the task of building 1,000,000 new rural and urban dwellings or 5,000,000 additional rooms”. The magnitude of the problem in Indian cities may not be as great, but its urgency and intensity are the same in both countries.

If we enquire into the etiology of this problem, what do we find? We find that the rise in rents in Calcutta and other big cities in India may chiefly be attributed to the following causes—(1) the expansion of commerce and industries and the consequential influx of people from outside; (2) speculative purchases of house property due to the acquisition of fortunes made by traders during war conditions; (3) acquisition of large areas by the City Improvement Trust without providing facilities for re-housing the displaced population; (4) projected schemes of acquisition by public bodies inducing landlords to squeeze up rents for the support of their claims to high compensation; (5) rise in the cost of labour and material, preventing construction of new buildings; (6) want of easy means of communication with the suburbs, and the resulting congestion within a fixed area; and, last, but not the least, (7) the westernization of the taste of the people in the matter of housing comforts and accommodation. All these

various causes have operated together to create a situation which has become well-nigh intolerable. The situation requires prompt handling, otherwise its effects on the social and economic life of the city will be disastrous. The pinch is felt by the middle-class salary-earners, the petty tradesmen and by the mill-hands and artisans : high rents lead to overcrowding and underfeeding, both of which are, as everybody knows, deleterious to health and morality. Further, high rents of shops and flats affect retail prices of commodities and are thus a contributory cause of the high prices which are still ruling the market everywhere.

The measures suggested for the prevention of excessive raising of rents are as follows—(1) the appointment of a Rent Controller with power to call from landlords for return of rents charged by them during recent years ; (2) temporary legislation prohibiting the raising of rents above the standard rent ; (3) the raising of the period of the notice to quit from one month to six months or more ; (4) the requirement that the notice to quit must show cause and that the sufficiency of such cause must be certified by the Rent Controller ; (5) the special empowering of Courts of Small Causes to refuse ejectment unless sufficient cause is shown by landlords, and to raise the period of notice to quit if hardship or other sufficient cause is shown by tenants ; (6) the lowering of suburban railway fares ; and 7) the development of means of communication with the suburbs.

All the above suggested remedies except the last two are merely temporary palliatives ; even the Rent Act is only a temporary measure and affords only temporary relief from exorbitant rents. The real solution lies in increasing the available space for building purposes and in the rapid construction of houses in large numbers. The fact of the matter is, that owing to various causes, the demand for housing accommodation is very great in every large city, and

the supply has not kept pace with it. The forces of demand and supply should be allowed to have free play ; but if capitalistic enterprise tends artificially to restrict the supply by attempts at cornering or monopolizing, the consumers—in this case, the tenant class—should combine into co-operative societies to fight the profiteering landlords, and the State, as the guardian of the public interests, should step in to protect the majority (*vis.*, the tenants) against the minority (*vis.*, the new rack-renting land speculators). Thus, briefly stated, the housing problem in big cities is that there is a combination of house-owners to exploit the weak and helpless position of the unorganized tenant class ; the most effective way of fighting the capitalistic combination is for the homeless tenants to combine into co-operative housing societies.

There are several kinds of co operative housing societies. The nature of a society to be started at a particular place will depend not only upon the requirements of the people to be benefited, but also upon the local conditions of each place. For instance, it may be the want of suitable building sites, or the absence of facilities to obtain capital on favourable terms, or it may be both these causes that have prevented people of small means from building houses for their residence. Consequently there are, as Mr. Talmaki points out, in one of the excellent pamphlets issued by the Bombay Co-operative Housing Association, four kinds of societies which might possibly be started on co-operative lines for housing purposes—

Firstly, those of the type of Land Societies of England formed by persons individually capable of paying the cost of the whole building, but joining together collectively to purchase or take on lease a sufficiently large plot of land to be parcelled out among them for building houses thereon ;

Secondly, those of the type of Mutual Benefit Building Societies formed by persons, each wishing to own an inde-

pendent house, but not able to pay the cost thereof at once and therefore taking a loan from the society on the security of the house and repaying it by instalments with interest ;

Thirdly, those of the type of tenant co-partnership societies formed by persons not in a position to own the houses independently and, therefore, joining together to own them in common, each tenant advancing a part of the cost of the house he resides in, the remainder being raised by the society as loans or debentures ;

Fourthly, societies of persons who are not able to contribute anything to the cost of the building, but joining together to hire collectively houses for their residence to be let out amongst themselves on easy terms.

These four types are intended for different grades of people, the last type for the poorest and so on upwards. Of these four types of societies, the first and second exist in Europe and America and the third has not spread beyond England. The fourth type has not yet been tried anywhere on co-operative lines ; but intelligent, though poor, tenants may be brought together to form societies of this type without much extraneous aid, and ample material of this kind is to be found in Calcutta or Bombay for successful experiments in this line. Experts in co-operative housing like Messrs. Ewbank and Talmaki recommend the third type, *vis*, the co-partnership tenancy societies as being the most suitable for our middle classes. In forming such a society it is of the first importance that its members should be bound to each other by common interests and pursuits, and, therefore, they should, as a rule, belong to a single community, caste, class or profession, and should be of about the same social standing. Such tenant co-partnership is intended to meet the needs of those persons who are not in a position to purchase or own an independent house. Here we shall take the liberty of quoting from an excellent paper on the subject

read by Mr. Ewbank before the Bombay Co-operative Housing Association—

“The members of a tenant co-partnership society join together to own a house or houses in common, each tenant advancing in the form of share money a part of the cost of the house in which he resides, the balance necessary being raised by the society in the form of loans or debentures. The houses built by the society are owned jointly by all the members, not individually by any of them, and are, therefore, kept up well. *The landlord's profit is abolished and rent is fixed on the lowest possible scale, and is not liable to be raised by competition.* Although a member is part-owner of the house in which he lives, he is not tied down to remain in it, and may, on his departure, realise the amount invested by him in the building from the incoming tenant or from the society. His shares also may be transferred by sale to other members as provided in the rules.”

The tenant co-partnership system, as described above, though of very recent origin, has become so very popular in England that numerous societies have been organized on these lines, and fourteen such societies, federated into a central organisation, have invested about two crores of rupees in land and buildings ; there are besides many such societies outside the federation. In India the first society of this type was started in Bombay under the name of the *Saraswat Co-operative Housing Society* and was registered under the Co-operative Societies Act. Within a year of its registration it built three houses for accommodating 18 families in as many self-contained four-room tenements at a cost of Rs. 72,000, and in the year following, it added two bigger houses to accommodate 24 families in self-contained three-room tenements at a further cost of Rs. 72,000. In this way in Bombay, we are told, it is now possible—thanks to co-operative building efforts—to rent a self-contained flat, consisting of two bedrooms, a

hall, a verandah, a kitchen and a bathroom, fitted with electric lights and fans and all modern sanitary arrangements for the small sum of from Rs. 25 to Rs. 33 per month, according as the flat is on the ground floor or on one of the upper floors; and what is more, these rents have been so fixed as to yield a net interest of 5 per cent. per annum on capital, after covering all outgoings.

It must, however, be remembered that the success of tenant co-partnership largely depends upon the certainty of regular enlistment of fresh members to take the place of those who may retire in view of the freedom enjoyed by members to give up residence at any time they desire after the ordinary notice. This type is specially well suited to the European and Anglo-Indian communities. In fact the selection of a type at a particular place will much depend on local conditions. But whatever may be the type of housing societies selected, *cheap land, cheap building materials, and cheap finance are in every case the primary requisites for their successful launching.* Both in Calcutta and in Bombay it is well nigh impossible to get cheap land in the heart of the city: only in suburbs could one possibly hope to find building sites: there they were undeveloped, insanitary or inconveniently situated. Fortunately for Bombay the newly created Development Directorate has, in the course of less than two years, developed suitable sites for the use of Co-operative Housing Societies and the Bombay Improvement Trust is generously seconding the efforts of the Directorate in this work. Suburban Calcutta is, however, still undeveloped, and much of the congestion and overcrowding in Calcutta is due to the utter neglect of her suburbs—Howrah, Manicktolla, Baranagore, Dhakuria, etc.—which can provide magnificent dwelling sites if our City Fathers and the Improvement Trust authorities do but turn their attention to them. But the land speculators have been more alert than they, and are already buying up all available

suburban sites in anticipation of future development, so that the price of land in the suburbs is also going up by leaps and bounds. But there is time yet for Co-operative Housing Societies being formed and land acquired by them or for them in the suburbs.

We suggest, first of all, that each of the three leading indigenous communities of Calcutta—the Hindu, the Mahomedan and the Anglo-Indian—should immediately bestir itself and form at least one society each like the Mangalorean Garden Homes Co-operative Society or the Bombay Catholic Co-partnership Housing Society. The former owes its birth to the desire of the Roman Catholic Christians of South and North Canara—otherwise known as the Mangalorean community—to have decent dwellings for themselves, somewhat similar to those which they have left behind in their homes in Canara. The buildings contemplated by the society are of three kinds. The first class of buildings comprises sixteen one-storied cottages on the co-partnership principle to be rented to such members of the community as have no houses of their own ; an elementary school for the children of the colony, a garden and a convalescent home are also included in this part of the building programme. The third class comprises a certain number of houses built on the hire-purchase system ; while the majority of the buildings come under the second class comprising houses for the members on the individualistic principle ; the society allots one plot to each member under definite conditions and under a definite agreement which includes the payment by the holder of a certain amount every year towards taxes and the general maintenance of the society giving at the same time complete liberty to each holder within his own grounds. Each shareholder builds his house according to his own requirements and with his own capital, but the plans are subject to the approval of the Managing Committee of the Society. The society

helps its members with the services of its expert staff and, if necessary, with a loan. It even undertakes the construction of houses, but on the financial responsibility of the member, and gives him the benefit of all its contracts for bricks, timber and other materials, if he chooses to take advantage of them. It has been pointed out that this type of housing society has the following, among other, advantages :—

- (a) Each shareholder looks upon his house as his own, builds it according to his own tastes, needs and means, at a time when it is most convenient to him.
- (b) Each shareholder subscribes his capital without hesitation when he understands that he has full rights, and will borrow from the society only the amount absolutely necessary.
- (c) The capital to be raised on the joint responsibility of members would be less, thus reducing the prospective risk to each.
- (d) The members would enjoy comparatively greater freedom, and would have the prospect of investing his own capital at a greater advantage than will be the case in a purely co-parcenary scheme. Add to all these the feeling of pride and satisfaction of living in one's own house—a feeling ingrained in the minds of us all !

That is one model for us to follow. The other model is furnished by the Bombay Catholic Co-partnership Society registered under the Co-operative Societies Act a few years ago. It has a membership of about four hundred, and a capital of about four lakhs of rupees. Forty-five acres of land have been purchased at Santa Cruz near Bombay, and a co-operative colony—called the “Willingdon Co-operative Settlement”—has been established there. The forty-five acres of land are all in one block and situated in an advantageous

position near the railway station and fully open to the sea, with a high road dividing the estate into two. One-half of this estate has been laid out with roads. Six cottages (for 12 families) have been completed and are occupied : there is a keen competition for them and members readily pay the minimum capital required to qualify for tenancy. The society's programme is to construct on the tenant co-partnership system forty upper-storied cottages with accommodation for eighty families, a school, a church, an institute hall, a co-operative store, a dispensary, a dairy and a poultry farm, to make ample provision for play-grounds, and, after reserving land for public purposes, to allot to each family a compound of eight hundred square yards on the average, which will be planted and maintained by the society for the benefit of the tenants. To satisfy those who desire to possess houses of their own, this society is prepared to let out plots of land, fully laid out and connected for water, drainage, etc. on lease for 999 years on terms which ensure *bona fide* building and not speculation. The principal features of this plan are that the land should be built upon within a minimum period, that the houses should be according to plans approved by the society and that they should be kept insured and in proper repair. The society itself undertakes to build cottages for lessees at cost price, to keep them in repair and to rebuild them at the end of their life on payment of a trifling contribution for repairs and sinking fund. The owner is at liberty to sell and keep the profit for himself after five years, but may sell only to Roman Catholics. On the other hand, in the event of his not finding a buyer, the society guarantees to purchase the cottage at cost price after four years. It may be of interest to record here that the rent charged varies from Rs. 20 to Rs. 34 only per month, inclusive of all taxes, together with the use of the compound and the benefit of the amenities provided by the Society. What has been possible for the Mangaloreans or Catholics of Bombay

should also be possible for the Hindus, the Mahomedans and the Anglo-Indians of Calcutta.

We should like to emphasize here that the establishment of such co-operative settlements or colonies or co-operative garden suburbs can only be facilitated if the Improvement Trust and the Local Government afford them the necessary initial aid. The nature of the aid which the Calcutta Improvement Trust can afford to such housing societies will be evident if we consider how the Bombay City Improvement Trust has helped the Bombay Housing Societies—specially the "Saraswat Co-operative Housing Society" which had been granted a very important *concession* by the Bombay Trust *as regards the payment of ground rent*. The society had been fortunate in securing *land* from the City Improvement Trust *at a reduced rate* and the other important concession the society had received was that under the Trust rules a lessee had the option of paying the whole price of the plot taken by him within five years of the date of lease which in the case of the society had been extended to twenty years. These are important concessions which, we believe, it is within the power of our Improvement Trust to grant to any such housing society as may be started in Calcutta. The Saraswat Co-operative Housing Society not only received concessions regarding land, but it also received cheap finance from a Bombay philanthropist, the Hon'ble Sir P. D. Pattani, who gave the society a long-term loan of Rs. 24,000 at 4 p.c. But with the growth of the Co-operative Housing Movement in Bombay it was felt that, as in other countries, State financial help was necessary to make further progress possible. The most important form of State aid to co operative housing in European countries consists of special facilities, such as long-term loans at a low rate of interest, sale or lease of land on easy terms, guaranteeing interest on loan-bonds, exemption of taxes on houses for the first few years, etc. Ever since its inception

the Bombay Co-operative Housing Association, under the able leadership of Messers. Talmaki and Orr has been repeatedly asking Government to afford some such aid to the projected Co-operative Housing Societies in Bombay. At first the Government of India refused to allow local governments to grant loans to Co-operative Housing Societies. They held that such societies should be financed by Central Co-operative Banks and similar institutions which have been established for the purpose of financing co-operative societies. In reply to this the Bombay Co-operative Housing Association pointed out that Co-operative Housing Societies required capital repayable by easy instalments over periods varying from 20 to 50 years ; and it was notoriously impossible for any banking institution to advance loans for such long periods as these, and this fact had been amply recognized by the Maclagan Committee on Co-operation. Moreover, the rates of interest charged by the Central Banks or the Provincial Banks are such as to place advances from them beyond the reach of any ordinary Housing Society. The Government of India have yielded at last and have allowed local Governments to advance long-term loans to Co-operative Housing Societies within their jurisdiction. The Government of Bombay took the earliest opportunity of affording such financial assistance. In a communique issued early last year they said—"The most appropriate and effective direction in which such assistance can be given by Government is by the grant of State loans, with adequate safeguards, to co-operative societies which have for their object the provision, on the lines of co-partnership tenancy, of dwelling houses at moderate means and in suitable localities for the accommodation of workmen, clerks and other classes of the population, on whom the present conditions, in respect to house accommodation, press most heavily. The Government are prepared to make advances to societies up to a limit of Rs. 5 lakhs during

the next financial year. Ordinarily interest will be payable on such advances at the rate of 6 per cent. per annum, but in special cases in which Government are satisfied that there are strong grounds for making a concession in this respect, a lower rate of interest will be charged." "The system on which loans are granted" says Mr. Otto Rothfeld, "is one of sanctioning a total loan up to three quarters of the total estimated cost of the settlement, site value as well as building cost being taken into account. One quarter of the total cost must, therefore, be met out of the members' own shares or deposits. Three quarters are lent by the general tax-payer, but the loans are divided into instalments spread according to plan over a number of years, and after the first instalment no succeeding instalments are paid until a certificate is received from the appropriate officer of the Public Works Department to say that actual work amounting to one-quarter more than the loan already disbursed has been satisfactorily performed by the society. The interests of the taxpayer or of the community are, therefore, safeguarded as well as can be by recurring valuations made by experts before further instalments can be paid. The loan is usually settled for repayment in 40 years by annual equated instalments, the first instalment falling due three years after the loan has been paid. Interest is slightly lower than the present exorbitant market rate." (*The B. B. O. Co-operative Journal*, July, 1922). We believe that the Government, of Bengal, who are staunch supporters of the co-operative movement, will follow in the wake of Bombay if a genuine and earnest Co operative Housing Movement is initiated in Calcutta and the suburbs.

We propose here to describe a way in which co operative housing can be developed in Calcutta in the easiest manner and with the least possible delay. There are, we believe, at least 50,000 clerks serving in the various Government,

mercantile and railway offices in Calcutta. These clerks, who form an indispensable part of the body politic and whose welfare it should be the concern of all employers to promote, have been hardest hit by the prevailing high rents. If the employers of these clerks in co-operation with the Calcutta Improvement Trust, can help in the inauguration of suburban co-operative settlements, not only will great relief be afforded to a most deserving class of long suffering men, but a great step will have been taken towards removing congestion in the city. The mill authorities may similarly help in the establishment of co-operative labour colonies or Workmen's Co-operative Building Societies on the Danish model. In Copenhagen there is a Workmen's Co-operative Building Society which builds large model dwellings which remain the property of the society. These dwellings, containing many flats, all light, roomy, airy, and with all modern conveniences, serve as dwellings for members only. The members are joint owners of the buildings, and pay a weekly rent for the flat they occupy. Each member pays an entrance fee of two guineas to meet expenses of administration and sinking fund. When a member moves into one of the flats he has to pay £14 to £25 according to the size of the flat. On these contributions an annual interest of 4 per cent. is paid by the society. The rent charged is just enough to cover interest on cost of building, taxes, repairs, and a moderate addition which is put aside to meet extra expenses. For each division of the society, that is the collective families living in a building, the rent is gradually reduced as the loan on the building is paid off, and this represents the profit of the members. Instead of gradually acquiring his own house he gets a reduced rent, but only as long as he remains a member of the society. If a member moves away from the society's building or withdraws from the society, the society refunds him his part in the property, but he cannot sublet his flat to a third party. The society disposes of the

flat which is let to a new member who pays to the society a sum equal to that which the society has had to pay to the member who left. In this way all chance of speculation in the flats is removed.

The aim of the society is to build as perfect and as cheap dwellings as possible, and for that purpose it has become its own contractor whereby it has accumulated very valuable experience. It also attempts to produce its own building materials and has bought a Brick Works, producing annually four million bricks which has proved a very profitable venture. It has also built a factory for casting cement goods (pipes, bricks, tiles, &c.) and a Plaster of Paris Works. The cement is purchased from the co-operative cement works, the Co-operative Building Society being a member of the Co-operative Cement Works Society. The Bank of the Co-operative Building Society is the Danish Co-operative Bank, of which society it is also a member. The co-operation between these various co-operative societies has been found very useful.

The Workmen's Co-operative Building Society has built nine large model dwellings with more than 600 flats, at a total cost of £240,000, and several more dwellings are in the course of erection. The model dwelling houses and flats in these are very good and convenient, and the rent is considerably cheaper than that of equally good flats in other similar buildings. If the mill authorities round about Calcutta help in the establishment of such societies for their employees, they will considerably increase the efficiency of labour and make it less shifting and migratory. Now, when and is still comparatively cheap in the suburbs, is the time for establishing such co-operative settlements or building societies. The G. I. P. Railway Company and the Government of Madras have already shown the way, and it is for us to follow. The former has promoted a Co-operative

Housing Society among its employees. One great advantage of such housing societies amongst employees is that it creates a contented body of men who think their interests are interwoven with those of their employers and the *chances of strikes are thus reduced to a minimum*. Similarly, the Government of Madras propose to acquire a broad belt of land for the establishment of a colony of menial Government servants, and offer to assist the proposed Government Servants' Co-operative Building Society and other building societies in the establishment of co-operative settlements. It may be mentioned in this connection that a sum of Rs. 4,75,000 had been entered in last year's Madras Budget for loans to co operative Housing Societies. We would suggest, therefore, that the big commercial houses of Calcutta, Bombay and other commercial cities should actively encourage the formation of Co-operative Housing Societies amongst their permanent staff, both Indian and European. These commercial houses are in a position to secure for such societies important concessions from the Improvement Trust and to advance cheap long-term loans to them repayable by convenient instalments. The loans have excellent security in the salaries of their employees and in the contentment which they will enjoy. Similarly the Governments of Bengal and of Bombay may very well follow the example of the Government of Madras by encouraging and assisting the different classes of Government servants including Secretariat clerks in forming Housing Societies.

By affording such facilities to their employees the Government, the commercial houses and the mill-owners will not only be conferring a great boon on deserving classes of people, but they also would be indirectly solving the problems of high rents and of public health. The removal of so many men out of an over-crowded city will have the effect of considerably increasing the building accommodation of the

city, and what is most important, the low rents, charged by the co-partnership tenancy societies, will have the deterrent effect of generally lowering the level of rents in that city. Besides, the example of so many co-operative housing societies will not be lost upon the upper middle classes, who also suffer as greatly from the prevailing high rents, and who have in the Bangalore City Gavipur Extension Co-operative Building Society a model on which they may proceed to organize themselves.

This Bangalore Society was started in January 1916, with the active help and co-operation of the Registrar of Co-operative Societies in Mysore. Its members are all holders of building sites in the new extension of Bangalore, known as the Gavipur Extension : it is significant that special facilities were afforded by Government to their servants to acquire sites in this new area which was developed at the cost of the Government and of the Municipality. The following are the chief objects of this society—(1) to provide facilities to its members in securing loans for long periods at a low rate of interest ; (2) to purchase materials in bulk and sell to its members at rates far below the prevailing market rates and (3) to arrange, if desired by the members, for the construction of houses under its supervision. The society has already built 22 houses which are all occupied. This type of society is admirably suited to those amongst us who wish to have independent house of their own, but who, for want of adequate funds, cannot do so.

The people of Bombay have felt keenly the need for Co-operative Housing, and Bombay has naturally taken the leading part in developing Co-operative Housing Societies which now number as many as 35. The present position of the co-operative housing movement is fully described in the following extract from Mr. Otto Rothfeld's article referred to above.

“As a matter of fact there are at the present moment 36

societies registered in the Bombay Presidency including Sind. For the reasons already suggested, however, the larger portion of these registered societies have not yet been able to commence actual work. A group of some eight societies, for instance, belongs to the City of Karachi. These societies are themselves more than willing to commence work and have treated the preliminary steps with becoming seriousness and attention. The Municipality itself, however, consists largely of members of a capitalist class some of whom may themselves have indulged in the favourite local amusement of speculation in land values. The available land in or near Karachi had long ago been vested in the Municipality by what at that time appeared to be an act of generosity on the part of Government. It is, therefore, hardly a matter for astonishment that much delay should have occurred before Co-operative Societies, whose success would certainly not add to the profits obtainable by capitalist land-owners, were able to obtain even at fair prices grants of land from the Municipality. The difficulty has now been overcome or is in process of being overcome, and it may be hoped that in the course of the next 12 months the Karachi Societies will really be able to commence building. Two of the societies in the Presidency are situated in the small town of Dharwar, a notable centre of co-operative activity in this Presidency. These societies have commenced actual building, and in one case have practically completed their settlement. Both have so far done without any loans from Government and are good examples of communal enterprise. Their settlements have been thoroughly well-planned and laid out with the assistance of the Consulting Surveyor to Government and are on the lines of Garden Cities in Europe. Another small society is situated in the garrison town of Ahmednagar and is composed entirely of poor Christians. These have obtained a small loan from Government and have commenced raising

tenements suitable to their class and income. In the City of Bombay eight societies have actually done substantial building work. One has already been mentioned above ; another, the Bombay Catholic Copartnership Society, has spent practically four lakhs, and has already raised a very satisfactory settlement in a suburb recently reclaimed on the foreshore of the island. The society has been helped by a substantial loan from Government amounting to about three lakhs and would have received a third instalment in the course of the present year, had disagreement within the Managing Committee not unfortunately made it necessary to withhold the instalment due. In all about 10 lakhs have already been given as loans to Housing Societies, and further provision for substantial loans in the course of the present year has been made in the budget. The Bombay Government is fully alive to the financial responsibilities which it is incurring by its policy of encouraging such societies and steps are being taken to secure sufficient funds for Co-operative Housing during the next 10 years by measures outside of the annual revenue accounts."

Mr. Rothfeld is not oblivious of what he calls "the most serious defect" in the Co-operative Housing movement in Bombay *viz.*, that so far it has been utterly unable to touch the class which suffers the most from congestion and is the most severely oppressed by capitalist owners. "The mill-hands in Bombay, and even more in the City of Ahmedabad are living in conditions which are repellent to the observer, and demoralizing and vitiating to themselves. The most desirable object for Co-operative Housing would certainly be the relief of those classes by the provision of co-operative settlements with cheap but healthy tenements suited to working men and their families. So far nothing has been done in this direction. The mill-hands themselves are uneducated and are to a large extent a floating popula-

tion, consisting in many cases of men alone without their families. To expect them at this stage to assimilate the principles of co-operation or apply them with any unity and consistency seems almost impossible. I know of only one society which has ever attempted to do anything approaching that class, and even that society does not go down far enough to give relief where it is most urgently required. It is natural enough that the educated middle class, constrained as it is itself by the conditions of Bombay to look after its own interest as urgently as possible, should hardly find time or energy to devote to the laborious process of educating the labouring classes in self-help ; and yet without some such consistent effort by unselfish workers of a higher class, extending perhaps over years with constant reiteration and explanation of facts and principles, it seems difficult to hope for any early relief to a situation among the labouring classes which is already dangerous not only to themselves, their health and their morals, but also to the well-being and peace of other classes in the community in such centres as Bombay."

In Madras also the Co-operative Housing movement has made good progress ; there are now 16 Building Societies, as they are called, in the Presidency of Madras. The latest one to be started is the Sivanandanpuram Co-operative Building Society in the South Arcot district. It was started towards the close of the year 1920-21 and deposited with the South Arcot District Co-operative Banking Union the sum of Rs. 3,683, the cost as estimated by the Revenue Department of 4.22 acres of land within the Cuddalore Municipal limits.

A Housing Society has recently been formed at Cawnpore : it has collected Rs. 22,460 in shares, but has not been able to get any land from the Improvement Trust which it would regard as favourable, and no building operations have, therefore, been started yet. The Chairman of the Lucknow Improvement Trust, we are told, has set aside a fairly large

area for the proposed housing scheme on co-operative lines, but the terms offered do not appear to be liked by the intending members who were at first very enthusiastic about the scheme. The idea of Co-operative Housing, the U. P. Registrar tells us in his Report for 1920-21, has still plenty of vitality in Lucknow and Cawnpore, but the citizens who are to benefit expect better terms than what the Improvement Trusts are prepared to offer. The grounds on which their claims can be justified are—(a) that it is easier for a Trust or a Municipal Board to deal with a society than with individuals, (b) that societies as corporate bodies and consisting chiefly of educated men can be expected to conform better to sanitary principles than individuals, and (c) that they would consist mostly of men with small incomes who are not living in cities by preference and who are experiencing the greatest difficulties in securing accommodation in large cities. In view of these considerations these societies deserve sympathetic consideration from the local bodies and the Government.

A Co-operative Housing movement has recently been inaugurated in Calcutta under the auspices of the Bengal Co-operative Organization Society. Twenty-five middle-class Hindu gentlemen, mainly in Government employ, have agreed to form themselves into a Co-operative Housing Society. The scheme proposed may be outlined as follows—

(a) Twenty-five Bengali Hindu gentlemen, mainly in Government employ, will subscribe Rs. 2,500 each towards the share capital of the society.

(b) With the paid-up share capital of Rs. 62,500 eight or ten bighas of land will be purchased.

(c) The land will then be laid out and, after making provision for common amenities of life to be enjoyed by all members of the Society, the remaining land will be divided into 25 equal plots which will be distributed among the members by lot.

^{*} (d) A loan of two and a half lakhs of rupees (at not more than 5%) will be taken from Government for the purpose of erecting houses. Either this loan will be equally distributed among the members to enable them to build their own houses on their own plots ; or, preferably, the whole building operations will be left to contractors according to a plan agreed upon by the members.

(e) Each member will pay every month $1/12$ of the annual interest on the loan, the municipal rates, depreciation charges etc. ; and, in addition, he will pay either monthly or annually a sum which will form a Sinking Fund for the repayment of the loan he has taken from Government through the Society.

(f) As the Sinking Fund charges to pay off the loan from Government are paid annually the interest charges diminish year by year, till after 20 or 25 years, the loan is repaid, the interest charges become nil and the members become proprietors and owners of their own houses, and the Society is dissolved.

(g) If all the members of the proposed Society are Government servants there will be this additional advantage that they will be able to get the House Building Loan *free* of interest.

It was at first proposed that the Society would be composed of fifty Bengalee Hindu gentlemen : but as that would require a bigger loan from Government the number of prospective members has been reduced to twenty-five. If larger loans are available even more than fifty men will be ready to join.

The proposed Society is to be composed of Bengalee Hindus because it is the basic principle of Co-operative Housing that members of the Society, living too contiguously to one another, should of the same community and of equal social and economic status and position as far as possible. Once this pioneer society is started, its example is sure to be followed by other communities like the Mahomedan, the Anglo-Indian and the Indian Christian communities,

CHAPTER XIV.

MISCELLANEOUS TYPES OF CO-OPERATIVE SOCIETIES.

Co-operative Electricity Societies.*—One of the most noteworthy recent developments in German co-operation has been the rise and rapid extension of societies for providing rural districts with electric light and power. In 1900 there was not a single registered electricity Society ; in 1907 there were 16 ; at the present time, their number may be estimated at about 3000. The use of electric light and power is to be noticed in even quite small villages in most parts of the country, and electric motive power is considerably utilized by large towns in many of the Eastern Prussian provinces. Its use by farmers has been stimulated by the marked increase in the employment of large and small agricultural machinery ; threshing machines, hoes, cultivator's mills, milk centrifugal machines, etc. are now very commonly driven by electricity. The dearth of farm labour has been another concurrent factor. Apart from the advantage of saving or replacing the labour, whether of man or beast, electricity is advantageous for farmers through the low cost of maintenance of the electric apparatus, the absence of running expenditure when not being utilized, the rapidity with which it can be put in operation, its simplicity for handling, the facility with which the motor can be applied to the working of several machines simultaneously, its precision, its cleanliness, its freedom from danger of fire, and, under normal conditions, its comparative cheapness. Smaller farmers are making an increasing use of electric power.

[*Based on Mr. Capill's Report on Agricultural Credit and Agricultural Co-operation in Germany.]

There are three principal groups of such Co-operative Electricity Societies :—(1) those producing and distributing electricity ; (2) those erecting their own conductor installation but obtaining their supplies from others ; and (3) those representing merely combinations of persons for obtaining electric supplies by guaranteeing a minimum purchase of current for obtaining reduced rates therefor. The great majority of the present societies fall in the latter category. By co-operative action cheap electricity is obtainable by small farmers even of the remotest village.

Public authorities (Provincial, District, Local, as well as the State Railway authorities) have materially assisted the movement to bring electricity within the reach of the inhabitants of country districts. In one province a large number of communes and districts have become share-holders and consumers in co-operative control stations, and thereby given considerable solidarity to the particular undertakings. Such participation is specially important for electrical undertakings depending largely on agricultural consumers, who require power for only a few months in the year, although they use it then to such a considerable extent that the conducting lines and sub-stations must be upon a considerable scale.

The Co-operative Hospital in Spain.—The co-operative hospital at Barcelona consists at present of 103 societies with a total membership of 21,000, the number of those entitled to use the institution being 117,000, since the privileges of a member extend to his or her wife or husband, children, parents and parents-in-law. Each member has to pay an admission fee of 1.50 pesetas (1s. 2½d.) and a monthly contribution of 0.10 pesetas (one penny). When a member is ill, he is received by the institution, which for a sum of 3 pesetas (2s. 5d.) per day provides food and medical aid, including surgical operations. The institution was

founded in 1904 by the Barcelona Waiters' Union and Friendly Society. It began with one society of 800 members and with 5 beds. It has now 55 beds. The present building is held on lease, but the new one will be the property of the Society. "La Quinta de Salud la Alianza" has cared for 2,148 in-patients, 83 per cent. of whom were operated upon. It has free general dispensaries and surgeries for diseases of the eye, throat, nose, ear, etc. Up to now 82,000 patients have been gratuitously attended in these dispensaries. There is no interference with the political, religious and social ideas of members and patients.

The members of the Society are greatly indebted to the noble generosity of Senor Done Juan M Grino Farges and Senora Dona Rosa Robero de Grino, who have made a gift of 125,000 pessetas (£5,000) for the purpose of acquiring the land on which the new Co-operative Hospital is to be erected. The hospital is attended by fourteen doctors, two resident students and two midwives. Dr. R. Girona Trins, the founder, is at the head of this staff and of the institution.

A novel form of Rural Distributive Co-operation.—

In the village of Stapleford (Hertfordshire) the local agricultural co-operative society has made an interesting experiment in the co-operative purchase, on simple lines, of domestic requirements (food-stuffs and coal).

The village contains no shop, and local requirements were catered for by tradesmen in the neighbourhood. The members of the society realised that they did not possess the requisite experience for running a co-operative store, nor were they prepared to accept the responsibility of doing so. It was decided, therefore, to approach some of the tradesmen who already did business in the village and to ask them whether, if orders for bread and groceries were bulked and payments

made weekly by the society, special terms would be offered. As a result of these negotiations certain tradesmen agreed to quote special terms and business was begun.

The methods of conducting the business are as follows :—

“The trade is divided into four headings, *vis.*, Groceries, Bread, Corn (feeding stuffs) and Coal. Every six months tenders are invited by advertisement in the local papers for supplies under these headings. In the case of groceries the firm tendering is supplied with a list of principal articles of consumption in order that prices may be quoted for each. Tenders are invited on the basis of cash prices with a discount to the society in consideration of bulked orders and weekly payments ; delivery by the contractor to the houses of the individual members is included.”

Each purchasing member, except in the case of their purchase of coal is supplied with ordinary tradesmen's books, one for each of the different classes of goods. The Secretary and Committee of the Society meet every Friday to receive orders for the coming week and payments for the past week's goods. Each member brings his (or her) tradesmen's books, which contain particulars of the order placed the previous week with the cost of the articles entered in by the tradesmen and totalled ; the total is the amount which is paid to the Secretary. In the book is also entered the order for the coming week. The grocery book is retained by the Secretary and forwarded to the tradesmen, the bread and corn books being retained by the members. On the day previous to the Committee Meeting the Secretary receives from the various tradesmen their weekly bills showing the amounts due. This enables the Secretary to prepare a statement showing the amounts due from each member under the different headings ready totalled to save time when collecting, and this also acts as a check on the members' books. To enable members to check their own books they are supplied with a list showing

the prices at which the tradesmen have contracted to supply the various articles.

The money thus collected on the Friday night is paid by the Secretary to the tradesmen the following day and the balance representing discount is banked in the Post Office Savings Bank.

Every half-year a distribution of discounts takes place. The Committee deduct a small percentage to cover expenses and allow for a reserve fund, and the balance is distributed in proportion to the purchase of each member of each class of goods.

Delivery of goods is undertaken by the contracting tradesmen. Bread is delivered four times a week, groceries once a week, and coal once a fortnight.

If a member prefers to select the goods at the shop, the tradesmen's book is handed back to him after the weekly payment instead of being retained by the Secretary.

The Society started in January, 1913, with a membership of 34 which by October, 1915, had increased to 55. Of this number 48 are purchasing members, and the weekly takings average £20. Almost every house in Stapleford is represented in the membership and eleven members have joined from the neighbouring village of Watton.

Co-operative Farm Implements Societies in Ireland.—Though the war has caused an advance in the price of farm produce, which would, therefore, lead to an increase in the arable area, it should be borne in mind that it has also brought about a great shortage of manual and horse-labour on the farm. As a consequence of this fact, the difficulties of the arable farmer have greatly increased.

The shortage of both kinds of farm labour could undoubtedly be overcome by the use of labour-saving implements on a more extended scale. Except in very large farms, however, the introduction of such machinery presents

another difficulty ; farm machinery is very costly, and average farmers of medium-sized and small farms have not sufficient capital to purchase the necessary machinery for a large extension of their tillage area.

This statement is specially true of Irish farmers, and, realising this difficulty, Mr. T. Wibberley, Agricultural Expert to the Irish Agricultural Organization Society, a few years ago, devised a co-operative farm implement scheme, through the operations of which it has been possible to place practically every farm implement, from a one-horse plough to a high-power agricultural tractor, at the disposal of farmers who become members of the co-operative implements societies. Further, the implements have been made available to farmers by the contribution of a merely nominal amount of capital on the part of the individual farmer.

The Formation of a Co-operative Farm Implement Society.—

When it has been decided by a community of farmers to start a co-operative farm implement society, a general meeting is held by those interested in the project. At this meeting with the help of a co-operative organiser (who always attends for the purpose) the following matters are dealt with :—

- (1) The formation of a Committee, consisting of a Treasurer, a Secretary, and about nine ordinary members ;
- (2) The drafting of general rules for the future government of the society ;
- (3) The financing of the society ;
- (4) The drafting of by-laws in accordance with which the society's implements are let out on hire.

The committee are empowered to raise the necessary capital for the financing of the society, and to transact all business appertaining to the society.

Capital.—The capital is invariably obtained in the form of

an overdraft from the local branch of joint-stock bank. The committee act as guarantors for the amount of the overdraft, and are thus directly responsible to the bank for the security of the amount involved.

On the other hand, each shareholder in the society signs a form making himself responsible to the committee for the payment of his shares in full, in the event of the society meeting with the financial disaster. The object is to make every individual shareholder financially responsible, and since the overdraft is not greater than the amount of shares allocated, the committee are guarded against any financial risks. As a rule £1 shares are issued, and each member is obliged to take at least the minimum number of shares specified by the committee, and also pay on each share at the time of allocation whatever amount the committee decide.

As a rule each member is required to take at least five £1 shares and pay on allocation the sum of 2s. 6d. per share. The rate of interest charged by the joint-stock bank to a co-operative society is very low, usually 4 per cent., and it should be understood that interest is charged only on the amount of the overdraft which the society actually has in use, that is to say, if a permissive overdraft of £500 has been obtained, and only £200 is used, interest is only charged on the latter amount.

Hiring of Implements.—The bye-laws controlling the rates and terms of hire of the society's implements are framed—again with the expert assistance of an officer of the Irish Agricultural Organization Society—to meet the specific requirements of the particular district.

As a general rule, the implements are hired out in the order in which applications for them are made by the members ; but since the main object is to encourage tillage, precedence in the use of an implement is given to the member who wishes to use the implement for the longest period. That

is to say, if on the same day two men require the use of a corn-binder, one having 10 acres of corn and the other 2 acres, the former takes precedence, and so on with all other implements. If in the case mentioned a second binder is not available then the applicant with 2 acres of corn has no alternative but to harvest his crop in the ordinary manner, that is, with an ordinary manual reaper and in some of the poor districts with a scythe. Such action gives an opportunity for the display of one of the finest features of the co-operative movement, viz., the exercise of private co-operation amongst the members themselves. For example, in the case referred to, the farmer who has been fortunate enough to secure the use of a corn-binder, requiring at the most only one other manual helper for the harvesting of his crops, would in most cases come to the help of his fellow-farmer by lending to him those of his own workers whose help is not immediately required for the saving of his own corn. It may also happen that a farmer with only a small amount of tillage is debarred from the use of several implements, and one might be surprised that such a farmer persists in remaining a member.

In actual practice, however, it usually happens that the farmer who requires the use of expensive farm machinery himself possesses the cheaper implements, and thus does not require to hire such implements from his society ; in consequence, the cheaper implements are more at the disposal of the smaller and poorer farmers, who individually cannot afford to buy them.

Further, the greater the amount earned by the machinery, the stronger the financial position of the society becomes and the sooner more implements are purchased. As will also be readily understood, the greater the demand for any particular type of implement, the more of such implements are purchased by the society.

As a general rule, the rate at which the implements are

hired out to members of the society is about half of what it would cost to carry out the various operations under the old regime. If, for instance, potato-sorting by hand costs 15s. per ton, the potato-sorter is hired out at 7s. 6d. per ton. If corn-binding with the manual reaper costs 15s. per acre, then the combined reaper and binder is hired out at 7s. 6d. per acre. Again, if the ploughing of stubbles by horse-labour costs 10s. per acre, a double disc harrowing with the agricultural tractor (which tills the land more effectively) is undertaken at the rate of 5s. per acre. In the case of corn threshing, the usual rate is a half-penny per stone threshed.

Implements for Nothing.—Apart from the great saving effected in the cultivation of land and the harvesting of the crops through the operations of an implement society, it is remarkable how soon a well-conducted society can earn sufficient to pay for the initial cost of the implements. Many instances are on record where a society commencing with two binders has in one harvest earned sufficient to purchase a potato-digger. The potato-digger has gone out on hire, and in its first season has earned sufficient to buy a corn-drill, which in like manner has earned the price of a horse-power sprayer, and so on. It is usually in such a small way as in the preceding case that a society commences its operations. Once the farmers of a district recognise the utility of such a scheme, the membership increases very rapidly. Automatically the society's borrowing powers increase, and it is then in a position to undertake the purchase of the more expensive implements such as agricultural tractors and complementary implements, combined threshers and finishers, and mole-draining plants.

Co-operative Anti-malaria Societies:—To Rai Bahadur Dr. Gopal Chandra Chatterji, Bengal owes the inception of a new type of co-operative society *viz.* the Co-operative Anti-malaria Society. The aim of these societies is to create

local agencies in the villages of Bengal for the purpose of carrying out anti-malarial measures within their respective areas. There are now 23 of these societies in different parts of Bengal, and a Central Co-operative Anti-malaria Society located in Calcutta. The Central Society has got about a hundred members, most of whom are medical men of repute. The members of the Central Society have to pay Rs. 6 each as entrance fee, and an equal amount as annual subscription : they, however, do not enjoy any benefit from the membership. Many of the members have paid handsome donations ranging from Rs. 500 to Rs. 1000 in furtherance of the objects of the Society. The management of the Society is vested in a Board of Directors of not less than nine, and not more than thirteen members. Some of the medical members of the Society have given an undertaking that they will render their services free of charge whenever they are required for rural propaganda, or training, or other work. The total capital of the Central Society amounts to Rs 34,000 of which Rs.10,000 has been placed at the disposal of the Society out of a donation of Rs.50,000 made by a generous anonymous Englishman : the total yearly income of the Society is Rs. 3,000 only.

The rural Co-operative Anti-malaria Societies are the agencies by which anti-malaria work is actually carried out under the general direction of the Central Society. Each member of a rural society has to pay a monthly subscription of an amount varying from four annas to a rupee. Each society tries to maintain a medical man on the subsidy system (it is interesting to note, in this connection, that altogether 10 medical men, of whom two are M. B.'s, are being thus maintained) and he attends the families of members free of charge. The Central Society pays a monthly contribution and may also issue loans to rural societies for helping them in carrying out big anti-malaria projects. Six dispen-

saries are being maintained—some on a share basis, some on charity. The total fund of all the existing rural societies amounts to Rs. 10,000 and the total monthly income comes up to about Rs. 1,000. Many of these societies have succeeded in bringing the services of qualified medical men within the reach of the inhabitants of inaccessible rural areas.

The anti-malaria methods followed by these societies are thus described in the latest Annual Report of the Central Society :—

“The work is divided into two parts, one part consists in filling up all redundant stagnant pools and ditches within the village areas, and in grading the drains properly, placing bed bars along the beds of the drains. This portion of the anti-malaria work is done during the dry season. It will necessarily take a long time, and has to be carried out from year to year on a definite plan. The second portion consists in kerosining all stagnant accumulation of water likely to be haunts of anopheles mosquito every seventh day, the operation beginning immediately after the rains and being carried on for three months. A novel feature of the work started this year is that each householder is given a printed book in which he enters every week the number of days for which members of his family suffer from fever. From this a fever index of the village is prepared by the secretary of the society, and from it the members will be able to judge for themselves whether the operations undertaken by them really reduce malaria or not.”

The achievements of co-operative anti-malarial work are thus described by the Secretary of the Society in his Report for the year 1921-22—

“The voluntary nature of our societies and the fact that the villages are able to realise that they are solving the greatest economic problem of the country have made our movement very popular and not a week passes when I do not receive proposals for forming a society in some village or other. But our financial resources do not allow us to maintain an adequately paid inspecting staff who can give training to the people seeking our aid, for carrying out the work of the society. So wherever we find men of light and leading.

taking interest in our work and able to grasp the method of our work and to give a lead to the people, there the societies have developed and the work has been carried on successfully without much outside help. An instance to the point is a society situated in Malda. The Civil Surgeon of that place, Dr. Sarkar, who is a member of the Central Society, was able to organise, within a few months of his arrival there, a society in Rohanpur, a village near Malda. In a remote village like this, it requires a large amount of robust optimism to expect so much public spirit as to enable the organisers to realise a monthly subscription of Rs. 30/- for running the society. But not only has this actually taken place, but the society has also been able to deposit to its credit a sum of Rs. 500/- realised by donations from the members of the local Co-operative Bank. Besides they have been able to induce the Local District Board to pay a subscription of Rs. 25/- a month. And the society is not yet ten months old. I cannot help noting the good work done by another society, as this will clearly show our method of work, and it will also show the vast amount of potential source of strength which is remaining dormant, and which can be diverted by propaganda and by sympathetic organisation to the cause of public health. The name of the society is Ghola Anti-malaria Society. The Society was started 9 months ago. At first 15 members joined the society, paying a monthly subscription of 8 annas only. Gradually by propaganda work, the society gathered strength, till the number of members swelled up to 27. It is a small village consisting of 500 souls. Practically all the adult earning villagers became its members. At one of its meetings, the society discussed the question of water-supply. A large tank belonging to several parties served as source of drinking water. It was overgrown with weeds and was shallow. Every effort made previously to excavate it was frustrated on account of the eight part owners of the tank not coming to terms. The eight owners, some of whom were members of the society, moved by a superior sense of public spirit, gave up their title to the tank by executing a deed of gift to the society. Shares have been issued by the society for excavating the tank. This, together with the subscription and contribution from the Central Society, amounted to Rs 300/-, the balance of Rs. 600/- was given as loan by the Central Society. Besides this, the society has drawn up another scheme costing about Rs. 1,000/- for filling up all insanitary

excavations within the village with the earth excavated from the tank and also for grading all the drains of the village, placing bed bars along the beds of the drains. For this the society has asked for a grant of $\frac{1}{3}$ of the total expenditure from Government through the Sanitary Board.

The older registered societies are not showing any signs of flagging energy and have kept their position unimpaired and some are showing signs of further growth. Nobogram in Burdwan is building a dispensary and medical officer's quarters out of their resources at a cost of Rs. 1,000/-. Sukchar has got a dispensary and is maintaining a passed compounder. Panihati has also done the same. Recently Rai G. C. Mookerji Bahadur, late Civil Surgeon, has kindly offered to make a gift of all his ancestral property in the village to the society."

Co-operative Post Offices :—In some villages in the Punjab Co-operative Post Offices have been organised : a society agrees to pay for the runner and to arrange for the clerical work ; but so far wherever co-operators have agreed to bear these expenses, the Postal Department has found reason to believe that a wholly departmental office would pay its way, and thus attempts to open co-operative post offices were most pleasantly defeated by the Postal Department undertaking the whole work. Here is an easy method by which rural people may effectively induce the Postal Department to open a post office in their village.

Co-operative Arbitration Societies :—These are also to be found in the Punjab : they are formed to save the members from the trouble and expense and waste involved in unnecessarily resorting to courts of law. Such societies have generally a hundred members each. Every member has on admission to pay four annas ; this admission fee and $\frac{1}{4}$ per cent. of all the value of the suits and fines realised form the fund of the society. The liability of each member of a society is generally limited to Rs. 5/- only. A panel of nine judges or arbitrators is appointed by the General Meeting

once a year, and out of this panel parties to a suit must select one or two arbitrators. The Registrar is the final appellate authority. In the bye-laws of the Kalian Village Arbitration Society it is provided that if a member is determined to proceed to court he has three courses open to him—

- (a) He can get the sanction of the committee to go to Court.
- (b) He can pay Rs. 100 as penalty and then go to Court.
- (c) He can withdraw from the Society by giving three months' notice.

These are provided in the bye-laws to overcome the legal point which does not allow a man to divest himself, by agreement, of his right to seek redress in a Civil Court. No member of an Arbitration Society is entitled to claim a specified share in any of its funds. There are now 120 Arbitration Societies in the Punjab. The Punjab Registrar makes the following remarks on the working of Co-operative Arbitration Societies in his Report for the year ending July 31st, 1920.

"The rules have been made elastic as it is not intended that these societies should usurp the functions of the Courts in cases of real legal difficulty. These cases, however, form such a very small proportion of the total that there will be ample scope for the societies' good offices. A few disputes have already been dealt with. Disputes relating to the business of credit societies have, in the last few years, been freely referred to arbitration, and, as the arbitrators seem to have given practically no ground for complaint, it is but natural that the idea of dealing in the same manner with other disputes should take root. * * * Our enquiries seem to indicate that the mass of the people are heartily tired of litigation and will welcome any suitable measure for the settlement of differences without resort to the Courts."

Crop Protection Societies: - "An interesting development in Berar is the Crop Protection Society. Usually such societies take the form of pig-killing clubs. One such club accounted for 9 pigs last year, and another for 65 pigs this year. The activities of these clubs prevent extensive damage to *juar* and groundnuts, the extension of the latter crop being proportionate to the pig nuisance in any given area. Another form of crop protection is afforded by societies which employ, not *Shikaries*, but watchmen." (C P. Registrar's Report 1920-21).

Co-operative Printing Presses:—The Sadananda Co-operative Printing Works, Ltd., of Puttur, south Kanara, was the first co-operative printing society to be started in India. It commenced work during the year 1917-18 with 49 members of whom ten were Societies, and with Rs 17, 370 as working capital of which Rs 2870 represented its paid-up share-capital. The nominal capital of the Society is Rs 20,000 made up of 200 first class shares of Rs 50/- each, and of 2,000 second class shares of the value of Rs 5 each. Any person over 18 years of age and of sound mind, and any society or company registered, incorporated or constituted under the Co-operative Societies Act, Societies Registration Act, Indian Companies Act or any other Act is eligible for admission as a member. The bye-laws of the Society permit the employment of the funds of the Society in starting and carrying on the business of printing and book-binding. With the previous approval of the general body, the Board of Directors may conduct a retail shop, where all the books, forms, and other matter produced in the press or bindery may be had, and may undertake the purchase and retail sale of paper and stationery, or any other branch of work likely to be useful or profitable and not inconsistent with the objects of the society. The society has all along been working at a profit. Another co-operative printing society—the Madras Central Co-operative Printing

Society—was started to undertake printing for all co-operative societies in the Presidency. Seventeen Central Banks, eighteen local Supervising Unions and fifty six primary societies have already taken shares in it. At the end of the year (1920-21) the paid up share-capital amounted to Rs 8,830, and the working capital to Rs. 11, 852. Orders to the value of Rs 9, 298 were executed during the year. The society keeps a stock of account books and forms required by co-operative societies and prints the *Madras Bulletin of Co-operation*. During the year the society sold books and forms to the value of Rs. 2, 370. The net profit on the year's working was Rs 3,045.

CHAPTER XV.

GUARANTEERING AND SUPERVISIONAL UNIONS

Before dealing with the higher co-operative financing agencies, we desire to describe briefly the systems of Guaranteeing and Supervisional Unions which, in most of the provinces, form the link between those financing agencies and the primary societies. The Guaranteeing Union is most common in Burma, the Central Provinces, Bihar and Orissa and Bombay, while the Supervising Unions are mostly to be found in Bengal and Madras. The Supervising Unions work within a very small area: societies in close proximity to one another combine into a Union for mutual supervision. The Union does not carry on any banking business, but, as a result of its supervision, it recommends loans to its affiliated societies. The liability of the Union is, of course, limited by shares, and a very small payment is enforced on each share. It employs a supervising officer who is responsible to an elected committee, and the expenses are chiefly met by a levy of contributions from the component societies. The Guaranteeing Union serves as a buffer between the primary rural society and the distant Central Bank which is unable to get any detailed knowledge of its client's affairs: the affiliated societies make themselves mutually responsible for each other's borrowings and restrict such borrowings to a figure approved by themselves. The duties of a Union comprise the assessment of the credit of each society belonging to it—but not the credit of individual members of a society—inspection, advice and propaganda. They provide, when well organized and taught, for the decentralization of detailed control from the remote central bank, with local

knowledge which must grow more and more attenuated as its business increases, to a body the control of which can be co-operative because proximity is secured by the by-law which restricts jurisdiction.

The number of such unions, whether guaranteeing or supervisional, is thus shown in the "*Statements showing progress of the Co-operative Movement in India*" during the year 1920-21—

Madras—177	United Provinces—10
Bombay—66	Punjab—1
Bengal—6	Burma—492
Bihar & Orissa—80	C. P. & Berar—308.
Assam—2.	

The four hundred and ninety-two unions in Burma are all guaranteeing unions, and these have had their birth in Burma. A guaranteeing union, as a rule, consists of 5 to 35 societies within a maximum radius of about 8 miles, *i.e.*, a morning walk from the union headquarters. It is managed by (i) a Committee consisting of the Chairman and one or more Vice-Chairmen, (ii) the Union general meeting at which each society is represented by two delegates. Its objects are :—firstly, mutual inspection and assessment of credit, and secondly, mutual guarantee. The means by which the first object is secured are (a) by the employment of a Union clerk, generally not a whole-time employee, drawing Rs. 15 per month, whose duty it is to keep the Union accounts and records, and to train and help the Secretaries of all societies in the Union, (b) by arranging that members of the Union Committee should inspect and visit affiliated Societies, by giving warnings and by issuing any general regulations that seem desirable, (c) by contributing towards the maintenance of a Union Inspector, a whole-time officer on about Rs. 50 per month, serving 5 to 10 Unions, whose business it is to inspect societies on the spot, to help in correcting faults, and

to send inspection notes to the Union Committee for their information, (d) by considering indents for loans from affiliated societies at a general meeting of the Union and sanctioning such loans as, in each case, may appear to the meeting to be suitable. The Unions do not themselves handle any cash, nor do they do any banking business. Funds for the maintenance of the staff are obtained by levying a Union rate which varies from 4 to 12 annas per cent per annum on the working capital of constituent societies. Mutual guarantee is effected by the rule that all societies constituting the Union shall be liable for any default by a society in the repayment of a loan recommended by the Union to the extent of the maximum amount of loans from non-members held by each of them in the course of the preceding year. All applications for loans pass through the Unions to the Registrar who can check their discretion and see that such Union gets its fair share of funds available in the Central Bank. The Registrar informs the Provincial or Central Bank of the amounts sanctioned by him and directs it to make a remittance accordingly.

So essential have these Unions been found as agencies for assessing credit, for control and for propaganda on sound lines that it is now the rule in Burma that no society in a Union area is registered unless its admission is promised by the Union, and no society is registered outside an existing Union area unless there is a good prospect that a Union will later on be likely to come into existence.

The by-laws provide that no society can be admitted unless four-fifths of all societies in the Union agree to admission—as a rule a society is only admitted on a unanimous vote. No society can withdraw without 18 months' notice. Affiliated societies have a *right* to be inspected and advised and to have their borrowing capacity assessed and guaranteed by the remaining societies in the Union. Their *duties* are to be loyal

to the Union in every way, to assist it and inform it of all matters affecting it adversely.

Each society, before admission, must pass a resolution in general meeting agreeing to join the Union, to abide by its by-laws, and authorising its chairman and two committee men to sign on its behalf a declaration to the effect that the society accepts all the rights, duties and liabilities imposed or to be imposed by the Union.

"The chief benefit conferred on the movement by the Union system," says the Burma Registrar, "is that it brings out and develops the best human talent in the primary societies. It is surprising what responsibility and local support will produce in this way. The movement thus develops from within, and the humble cultivator whose gifts of capacity and authority were unknown to his neighbours and to himself, becomes a leader of men, specially trusted and specially influential as one of themselves."

Mr. Wolff, with his life-long and world-wide knowledge of co-operation, also asserts and emphasises the good work done by such Unions : he says—" By all means let us turn to account for common business over a wider, though still sufficiently limited area, the stimulating action opportunely discovered in the grouping of Societies." But he is strongly opposed to the introduction of the system of Guaranteeing Unions *as a permanent feature of organization*. He thinks that it distorts co-operative organization and spoils the co-operative character of the movement in India. His arguments, with which we are in complete agreement, may be briefly summarised as follow—

(1) The policy based upon guaranteeing unions is designed to save Central Banks from trouble as much as possible and partly, therefore, to adopt capitalistic methods of credit, in the place of co-operative methods.

(2) It involves entanglement of interests and responsibili-

ties which necessarily means confusion, breeds carelessness, and may bring about disaster, just by reason of the absence of clearly marked delimitations.

(3) It involves interlocking of liabilities. "As matters stand now, you no longer give your comrades a blank cheque, but you give them a cheque made available up to a certain fixed sum. Up to that sum you are committed to them without reserve. You have lost the command of your own money. Up to the point named, the disposal of your money is in other people's hands. Within such limit, liability certainly is interlocked, and that should not be in Co-operation."*

Mr. Wolff rightly repudiates the suggestion made to the effect that "societies should actually be compelled to '*squad*' themselves willy-nilly into Guaranteeing Unions." The Eighth Conference of Registrars of Co-operative Societies considered the question whether the Burma system of voluntary entry of primary societies to guaranteeing unions was preferable to that of direct or indirect compulsion introduced in certain provinces *e.g.*, Madras and the Central Provinces, and adopted, by a large majority, the following recommendation of its sub-committee—

"We do not recommend to the Conference the adoption of any system of direct or indirect compulsion to join a guarantee union, but we do not advocate interference with any existing system."

The discussion on the above recommendation is very instructive and is reproduced below—

Mr. Calvert in presenting the report of the sub-committee said that no one on the sub-committee had been in favour of Guaranteeing Unions. Some of the members of the sub-committee were definitely opposed to them as a result of their experience, and others had no intention of trying them. It had been found quite definitely in the Punjab that a Sikh of one village would not guarantee loans to Muhammadans in another village.

* *Co-operation in India*, pp. 207—220

Mr. English said the system was voluntary in Burma.

Mr. Mathias said it was also voluntary in the Central Provinces.

Mr. Collins said it was compulsory in Bihar and Orissa to the extent that he refused to register any societies which did not promise to join a Guaranteeing Union, if required to do so. But no Guaranteeing Union was compelled to take in any particular village.

Mr. Hemingway said in Madras they were prepared to exercise indirect pressure to compel societies to join Supervising Unions, but that the Unions in that province accepted no guarantee.

Mr. Mathias said that if their Federation in the Central Provinces compelled societies to join Guaranteeing Unions they would have to do so.

Mr. Donovan said that such Unions made up for a lack of Central Banks. A Central Bank in Bengal was more or less a Guarantee Union. Each society guaranteed to pay up Rs. 25 on its share in the Bank if the latter went into liquidation. Mr. Wolff had condemned Guaranteeing Unions as unsafe. He therefore agreed with the recommendation of the sub-committee.

Mr. Ewbank said that in Bombay when a Guaranteeing Union had been formed, and a new society came up for registration within its area, it was required to join the Guaranteeing Union before it was registered and to contribute towards local supervision in conjunction with societies in its neighbourhood. Guaranteeing Unions necessarily supervise as a condition of their guarantee. The guarantee only amounted to this. Every loan application to the Central Bank or the Provincial Bank was examined by the Union Committee and only granted after it was sanctioned by the Committee. If the society did not repay the loan punctually in spite of the efforts of the Union, the Registrar would have to liquidate it. If the amount realised on the completion of the liquidation was still deficient, the other Union societies had to make up the balance within certain specified limit. There were 31 such Guaranteeing Unions in Bombay; he did not consider the liability accepted as in any way reasonable.

Mr. Collins said that in Bihar and Orissa it had been found that without some connecting link between it and its affiliated societies no Central Bank could manage more than 150 societies, which was the absolute limit of expansion. Some means of decentralization was therefore necessary and therefore it had been laid down that no new society could be registered unless it joined a Guarantee Union. No compulsion

was used to make a society join any particular Union, but as no Central Bank could manage more than a certain number of societies direct, it was impossible to register societies, unless they agreed to the system. The second point was that all societies were shareholders in the Central Banks, had to take one ordinary share of the face value of Rs. 10 for every 100 rupees loan and were liable for the debts of the Central Bank to the extent of five times the amount of that share. But being mostly composed of ignorant people they do not exercise any check on the policy of the Central Banks or in regard to the loans given to other societies. When it was pointed out to them that by joining a Guarantee Union they could limit this liability to the debts of the neighbouring societies, the position of which they knew and the loans of which they could limit, they jumped at the idea. It was only in the case of new societies that any compulsion was exercised in regard to joining Guaranteeing Unions.

Supervisional Unions are more co-operative in character and purer in form than the hybrid institutions known as Guaranteeing Unions. It is the essence of any co-operative organization that a co-operative society should look after its members and that the members should look after one other. It is equally a principle of co-operation that, just as the members of a society influence and improve the conduct of one other by mutual supervision, so also societies should influence and improve each other's working by accepting the mutual responsibility of supervising each other ; and it is on this principle that Supervisional Unions of primary societies are formed. The members of a local union are societies, each society sending a delegate to represent it on the general body of the Union. These delegates elect from among themselves a governing body, consisting generally of about seven members, and this body manages the affairs of the Union. The Union is ordinarily comprised of some 20 or 30 societies. It must not cover too large an area, for otherwise the members of the various societies will not be mutually acquainted with each other, and mutual supervision will, thereby, be rendered difficult or impossible ; nor, on the

other hand, must it be too small, as it is necessary for it to collect funds for the payment of its establishment; if the affiliated societies are few, their contribution will not be sufficient for the maintenance of an efficient establishment.

The primary function of a Union is to supervise the societies affiliated to it. This duty it can carry out by obtaining reports from societies as to their working and by inspecting the Societies either through the agency of one of the members of its governing body or through the agency of a paid supervisor. Each Union employs a paid supervisor who is always a qualified man certified by the Registrar to be fit to do audit and inspection. And these supervisors not only inspect societies but also do no small portion of the audit of societies. Much good can be done by the inspections of the Union supervisor controlled by the Union Governing body. But still more valuable are the visits and inspections of members of the governing body of the Union themselves.

The Union is generally entrusted with the duty of scrutinizing the applications for loans sent by affiliated societies to the Central Banks; and indeed the Central Banks do not ordinarily give a loan unless it is recommended by the Union. Similarly also all correspondence between societies and the departmental officers relating to the affairs of societies, such as matters connected with internal management, arbitration etc., passes through the Union. And both the banks and the departmental officers always consult the Unions before taking any action about a society. The Union pays for its supervisor and other expenses from a fund which is contributed partly by the affiliated societies and partly by the Central bank.*

The true line of progress lies in a progressive development of these Supervisional Unions. With Mr. Wolff we also hope to see these Unions multiplying—"but as *supervising*

* From the *Madras Co-operative Manual*, pp. 67-68.

Unions, to be eventually merged into larger Unions, of the European type, after which they may remain in existence and continue to do admirable work as sub-unions, a most useful category of organizations—just as the present 'Central Banks'—useful in all cases, and under present conditions absolutely indispensable, are likely to continue, although eventually brought to play only a secondary part under Provincial Banks, once such become well-established and strong " •

* *Co-operation in India*, p. 216.

CHAPTER XVI.

HIGHER CO-OPERATIVE FINANCING AGENCIES : CENTRAL CO-OPERATIVE BANKS.

Constitution and Management of Central Banks—Central Banks in India may be classified according to their constitution as (1) banks of which the membership is confined to individuals (2) banks of which the membership is confined to societies, and (3) banks which have a mixed membership of both individuals and societies. The first class includes banks in which individuals only are share-holders and banks in which registered societies may become share-holders, but upon exactly the same terms as individuals, and without any special provision being made for their representation. In the case of banks of the third class a certain proportion—generally a large proportion—of the shares is reserved for registered societies which are given special representation on the board of directors : these banks are best suited to present Indian conditions.

Banks of the second class called Banking Unions are those which would ordinarily be described as most truly co-operative in character, since in them is eliminated all conflict of interest between the Central Bank as lender and the local societies as borrowers. It differs from the other two classes in respect of its smaller area usually confined to a radius of not more than ten miles, and in admitting no individual share-holders. It is a feature of the Punjab system, though not unknown in Bengal and Madras. Banks of this class can be conducted at a very small cost for management, as the amount of supervision necessary is

reduced to a minimum. But, though desirable in themselves, they are seldom competently managed, and do not leave room for the help of the middle classes, and should therefore be started only in those areas where all classes are imbued with the true co-operative spirit.

It might seriously be disputed whether banks of the first class are really entitled to be considered co-operative. They are hardly to be distinguished from joint-stock banks, and in some cases they do not even limit their activity to transactions with co-operative societies. Such Central Banks should not be registered, if they propose to grant loans to any other persons or institutions except to co-operative societies, or to undertake any outside banking business. The by-laws should include provisions limiting dividends, and the directors should maintain an independent staff for assessing the credit of the borrowing societies. It is the Registrar's duty to see that the contract between the Central Bank and the societies is not unfavourable to the latter. In any case this type of Central Banks should gradually disappear.

Central Banks generally serve a well-defined area which usually coincides with some administrative division, such as district or tahsil. The number of societies to which a bank makes loans varies very considerably, chiefly because in some cases the bank deals directly with each local society, while in others it deals with unions of the societies. Central Banks should, however, ordinarily be prepared within a reasonable time to deal with 200 or 250 societies.

Composition of Capital—As in the case of primary societies, Central Banks draw their working capital from four main sources—(1) shares, (2) deposits (3) loans, and (4) reserve fund.

(1) *Shares*.—The share capital is subscribed by individual share-holders and by affiliated societies. In banks of

the mixed type the shares held by individuals are sometimes distinguished as preference shares and enjoy either a certain right to a cumulative dividend or a prior claim on the capital in case of liquidation, the object being to make investment in the shares attractive to the outside public. The nominal value of shares ranges from Rs. 10 to Rs. 500, the shares assigned to individuals being sometimes of higher value than those held in the same bank by affiliated societies. Under section 5 of the Co-operative Societies Act, 1912, no individual may hold more than one-fifth of the total share capital of any society, or in any case more than Rs. 1000, except with the special sanction of the Local Government.

Practice varies with regard to the distribution of voting power. In the Punjab and the United Provinces, for instance, each share entitles the holder to one vote ; in Assam and the Central Provinces each shareholder has one vote only ; in Bombay and Burma voting power is carefully graduated so as to give proportionately fewer votes to large holders than to small ones.

Liability with respect to shares is ordinarily limited to their face value, but in a few provinces the banks have adopted the practice of fixing the liability at some multiple of the nominal value of the shares held. Thus in Bihar and Orissa the liability of preference share-holders is usually double, while that of ordinary share-holders varies from five to ten times the value of the shares held. It is not the rule that shares are fully paid up.

The following table will show the amounts of share capital paid up by members of Central Banks in 1921 and the amounts of uncalled and subscribed share capital *i.e.* the reserve liability of members of Central Banks in the several provinces of India—

Province.	Share Capital paid up.	Reserve liability	Total number of Central Banks.
	Rs.	Rs.	
Madras	18, 82, 358	25, 12, 646	32
Bombay	7, 53, 659	2, 08, 456	17
Bengal	15, 58, 882	15, 18, 739	71
Bihar & Orissa	5, 65, 922	6, 74, 392	41
United Provinces	13, 78, 595	16, 52, 513	68
Punjab	13, 31, 321	8, 81, 395	98
Burma	6, 06, 825	—	11
C. P. & Berar	18, 27, 032	—	34
Assam	83, 574	36, 826	15
Ajmere-Merwara	2, 40, 504	—	6
Delhi	7, 950	—	1
TOTAL (British India)	1, 02, 36, 622	74, 84, 967	394

From the above table it will be evident that only in Burma and the C. P. there is no reserve liability, the full amount of the subscribed capital being paid up ; in Bengal, Bihar and Orissa and the United Provinces about 50 per cent of the share capital has been called up ; in Bombay and the Punjab the amount of the reserve liability bears a smaller proportion to the amount paid up.

The MacLagan Committee disapprove the use of reserve liability, particularly in the case of individual share-holders, on the ground that after the lapse of a certain time, and specially in moments of financial stringency, banks would find it difficult to obtain payment of any part outstanding on shares.

In order to gain public confidence and attract deposits it is desirable that the share capital should be as large as possible consistently with economy in working. But the maximum rate of dividend on such shares is usually fixed by the Local Governments at 12 or $12\frac{1}{2}$ per cent, though the usual dividend paid per share in the several provinces is 6 to 7 per cent, the maximum being only reached in the case of a few Central Banks.

(2) *Deposits.*—For the whole of British India deposits amount to a little above 64 per cent of the total liabilities of Central Banks. They are obtained chiefly from professional men, landowners of medium status, Government servants and Europeans. Only to a very limited extent, do Central Banks compete with Joint-Stock Banks for deposits. The rate of interest paid on deposits varies from 3 to 10 per cent, but is normally from 5 to 7 per cent on deposits for one year, increasing by not more than one per cent for each additional year on deposits for longer terms. A certain small proportion of the deposits consists of deposits made by societies affiliated to the Banks. In Madras it is compulsory for societies to deposit their reserves with the Central Bank ; in Burma one-quarter must be so deposited.

(3) *Loans.*—The loans received by Central Banks are generally from (i) outside banks, (ii) other Central Banks, (iii) Provincial Banks and iv) Government. The outside banks are either the Imperial Bank of India or ordinary joint-stock banks : in provinces which have apex banks, the Central Banks have generally no direct dealings with the Imperial Bank or joint-stock banks : they are given loans, or cash credits are sanctioned, by the Provincial Banks which in their turn get cash credits from the Imperial or joint-stock banks. In case of extreme financial crisis, local Governments and the Government of India come to the rescue of Provincial Banks. Thus in 1921 the C. P. Government, with the sanction of the

Government of India, provided the C. P. Provincial Bank with 17 lakhs as a cash reserve or fluid resource for the protection of depositors and 19 lakhs for the finance of members of rural societies. The former was granted by means of a cash credit for 3 years with the Imperial Bank of India on the security of the promissory notes of the primary societies endorsed by the Central Banks and again by the Registrar on behalf of Government, ultimate repayment being guaranteed by Government. The sum of 19 lakhs for the finance of the members of societies took the form of a *takkavi* loan from the Government of India repayable in four years.

Loans from other Central Banks are taken in provinces where there is no bank in the position of a Provincial Bank, and where, therefore, the only way in which Central Banks can use their surplus funds for the good of the co-operative movement is by lending to one another. Loans from Government are insignificant in amount and are decreasing gradually. Thus, in 1921, the total amount of loans given by Government to all the 394 Central Banks in British India was only Rs 2, 78, 106.

(4) *Reserve fund*.—Central Banks as a rule place only the minimum of one fourth of their net profit to the reserve fund, distributing the remainder as dividend or allotting it to certain special funds, such as, Building Funds, Dividend Equalisation Funds, etc. The actual amount of the reserve and other funds of all Central Banks in 1921 was Rs. 31, 39, 074, equal to 4·1 per cent of the total liabilities. There is no uniform rule with regard to the employment of the reserve fund, and it is often used in the bank's own business as part of its working capital.

The capital *owned* by the Central Banks (as opposed to capital *held and used* by them) consists of the reserve and other funds and the paid-up share capital; in 1921 the average proportion in British India of the total owned

capital to the total liabilities was 21 per cent which may be considered to be satisfactory. The MacLagan Committee express the opinion that in ordinary circumstances paid up share capital and reserve fund should be equal to not less than $12\frac{1}{2}$ per cent of the total liabilities, and it will be seen that the actual percentage for all Central Banks in British India is 21.

The following recommendations and opinions of the MacLagan Committee on the subject of the composition of capital in Central Banks deserve careful attention :—

There is no objection to the discontinuation on the part of Central Banks of the practice of levying affiliation fees.

All shares in a Central Bank should preferably be on one footing. But if it is absolutely necessary in order to attract local capital, the shares assigned to individuals may carry preference as regards dividend, but not cumulative dividend.

It is simpler if the shares held by societies and individuals are of uniform value.

Societies should ordinarily be required to take shares in their Central Bank in proportion to the amount of their borrowings from it.

Every shareholder in a Central Bank should have one vote only. If there is a difficulty in raising capital, Local Governments may properly authorise individuals to hold shares in excess of the statutory maximum of Rs. 1,000 but otherwise the limit fixed by the Act should be adhered to.

All shares held by individuals should be fully paid up. Reserve liability is permissible in the case of shares held by societies.

Reserve liability should be restricted to the face value of the shares and not to some multiple of it.

The rate of dividend should be limited by rule. When most of the shares are held by societies, the maximum should be the same as the average lending rate. When the shareholders are chiefly individuals, it should not exceed the average rate paid on deposits by more than 2 or 3 per cent. Bonuses should be prohibited.

Deposits by primary societies in Central Banks should consist of (1) excess deposits received by them and passed on, and (2) small deposits for short periods. Reserve funds should not be deposited in them.

The opening of current accounts is deprecated, but in places where banking facilities do not exist may be permitted. A low rate of interest not exceeding 2 per cent. should be paid on such amounts, and the whole amount so held should be covered by cash or Government paper irrespective of fluid resources kept to cover other liabilities.

Savings accounts may be opened on behalf of members and non-members provided that 75 per cent of the amount so held is covered by cash or liquid investment, that the maximum accepted on one account is small, that notice of withdrawal is required and that they are not allowed to become current accounts.

Central Banks should make every effort to obtain deposits sufficient to meet all their needs and may draw them from any area subject to such restrictions as may be found locally advisable.

The average period of deposits should not be less than the average period in which loans are repayable. In arranging to repay deposits banks should not count on renewals or fresh deposits but rely on stipulated repayments of loans, and should spread receipts, add payments as far as possible over the whole year.

To meet all charges entailed by our recommendations, Central Banks require a 3 per cent margin and primary societies the same.

Special care should be taken to repay deposits punctually. The intentions of depositors with regard to renewals should be ascertained in advance.

Central Banks should be allowed to regard the undrawn portion of any cash credit granted to them by a Presidency Bank as a fluid asset.

Cash credits with Joint-Stock Banks of recognised stability also constitute legitimate fluid resource. The Registrar should introduce Central Banks to Joint-Stock Banks and furnish the latter with any information they require. Joint-Stock Banks should be expected to examine the position for themselves and not to rely on Government support for repayment.

Loans by Central Banks may with the Registrar's sanction be made to other Central Banks. Loans between Central Banks should cease as soon as a Provincial Bank is started.

Banks should raise capital by means of long term deposits rather than debentures, unless in very special cases they are in a position to secure debentures on immoveable property.

Share capital *plus* reserves should be at least 12½ per cent of the total liabilities.

Employment of Capital.—Owing partly to the mistaken ideas with which some Central Banks were started, and partly to the fact that several of these banks have developed out of ordinary urban credit societies, it is in some cases customary for them to grant advances to individual share-holders, where they exist, as well as to affiliated societies. In most banks this practice is being gradually abandoned—and we think rightly so. Wherever it is found essential that individual members should be enabled to take loans, we should prefer that a separate urban bank should be formed to meet their needs; but in cases where this is found impracticable, a by-law should be introduced with the object of gradually restricting the practice. It should be no part of the business of a Central Bank to grant loans to individuals. The object of the admission of the individual shareholder should be to secure his help and it is not intended that he should borrow funds or appropriate capital intended to support primary societies.

The Maclagan Committee observe “that under the conditions prevailing in India it is inadvisable for Central Banks to undertake any outside banking work, and they should confine themselves to financing primary societies and serving as their balancing centre. In Europe, it is true that outside business is undertaken both as a convenience to members and in order to increase the turn-over, but with the agency at our disposal in India, and at the present stage of development among the people we would discountenance any attempt on the part of Central Banks to seek profit by means of investments, discounting bills, or other methods of ordinary bankers.”

The following opinions and recommendations of the Maclagan Committee on this subject deserve careful attention :—

Central Banks should not grant loans to individuals, nor should they undertake any outside banking work.

A Central Bank should assess the credit of an affiliated society after re-examining and testing either by its own staff or through a union the society's own estimate of its borrowing power and the data on which the society has fixed the normal credit of its members and considering the society's needs and its own existing funds

The data required by a Central Bank should include a valuation of (1) the moveable and immoveable property of the members of a borrowing society and (2) the earning and saving capacity of the same members. These data should be used to check conclusions based on the character of the society and on its past record.

Where a union exists the valuation mentioned above should be made by it; where not, by the Central Bank. Responsibility for the making of the valuation should be undivided. The Registrar should have power to require the reduction of the credit of any society.

Loans should be sanctioned as far as possible all together at one or two main seasons in the year.

Central Banks should accept the opinions of Unions with regard to the purpose and amounts of loans, but in case of insufficiency of funds to meet all claims, may refer back to the Union.

Subject to the condition that the terms of loans must depend on the terms for which deposits are held, and that repayments due within a given period should exceed the deposits falling due within the same period, Central Banks may grant loans either recoverable in fixed instalments or on pro-notes nominally payable on demand, the society's repayment corresponding with the repayments made by members.

Cash credits should be freely opened in favour of thoroughly well-managed societies.

The security taken from a borrowing society should ordinarily be a pro-note. Shares held by societies in Central Banks should not be accepted as security for a loan, though deposits may be.

Rates charged on loans should be below bazar rates, but should be high enough to allow of a wide margin. Rates may vary on a definite system with reference to the character of the borrowing society and the length of the loan.

Money recovered from members should be at once available for repayment by a society to a Central Bank. The Central Bank should supervise recoveries, but need not prepare lists of overdue loans.

Central Banks should not ordinarily institute proceedings against defaulting societies in civil courts, but should exercise pressure through

their staff and finally apply to the Registrar to take action under section 36 of the Act.

After providing fully for fluid resources a Central Bank may legitimately use balance (if any) of reserve fund in its own business.

To meet contraction of credit Central Banks must keep fluid resources.

These should be sufficient to meet half deposits due during the ensuing year, supposing no fresh deposits or renewals were made and no repayments received.

Fluid resources are only to be utilized when other sources fail.

The fluid resources of a Bank must suffice to meet its own requirements and those of societies which have entered into arrangements with it.

The standard of fluid resources should be re-adjusted quarterly.

Superfluous funds should be passed on to Provincial Banks.

In calculating net profits for purposes of distribution, Central Banks should always deduct interest accrued and overdue. Interest earned but not due should be shown separately in the profit and loss account.

The provision of contingent or bad debt fund is desirable in the case of banks which only place the legal maximum to reserve.

Building funds are permissible, provided that they are postponed to the provision of an adequate fluid resource. Where such buildings serve also as agricultural depots Government may properly contribute to their cost.

Statistics relating to the operation of Central Banks in British India during the year 1920-21 :—

In 1921 there were 394 Central Banks in British India, the membership of which included 97,727 individuals and 33,204 societies of which 31,165 were agricultural credit societies. Loans made during the year to individuals and to societies amounted to Rs 12, 21,495 and Rs 4,23,13,566 respectively. Some of the Central Banks—notably those of the Punjab, the United Provinces and Bengal—sold goods to members : the total amount of sales by all the Central Banks was Rs. 7,42,525 : the Punjab and Bengal Central Banks also purchased members' products valued respectively at Rs. 2,28,651 and Rs. 1,66,352. The total paid-up share capital of the Central Banks amounted to Rs 1,02,36,622 (there being a reserve

liability of Rs 74,84,967) and the total sum held in loans and deposits (from Societies, Provincial or Central Banks, Government, individuals and other sources) was a little above 628 lakhs of rupees as against an owned capital (composed of the paid-up share capital and the reserve fund) of over 133½ lakhs of rupees. The total working capital of the Central Banks (including paid-up share capital, loans, deposits and the reserve and other funds) came up to Rs 7, 62,56,372 on which a profit of Rs 15,86,425 was made. The usual rate of interest on borrowings varied from 6 to 8 per cent in the several provinces, and that on loans from 7½ to 12½ per cent., while the rate of dividend paid on shares was generally 6¼ per cent, in some cases rising up to 12½ per cent, the maximum allowed under the Rules.

True Sphere of Central Banks* :—There has recently been a great controversy regarding the true sphere of the activities of Central Banks. The controversy was started by Mr. R. B. Ewbank, then Registrar of Co-operative Societies, Bombay, in an article on "The True Sphere of Central Co-operative Banks" published in the July (1918) issue of the *Agricultural Journal of India*. In that article he draws attention to the fact that in the last few years there has been a distinct tendency, most marked in the Central Provinces, the United Provinces, and Bihar & Orissa, "to make the District Central Bank the pivot of co-operative administration." Mr. Ewbank says,—“The true function of a Central Bank is simply to say ‘yes’ or ‘no’ to loan applications and when it says ‘no’ to explain why, in order that a society may know in what way its credit is defective.....Their true sphere is finance and not administration and control.” In the words of Mr. Wolff,—“The Central Bank is, when all has been

* The controversial literature on this subject is to be found in the *Agricultural Journal of India* Vols. XIII-XIV, in the *Bengal Co-operative Journal*, Vol. V, No. 4, in the Proceedings of the Third Annual Conference of the Indian Economic Association, in Mr. Wolff's *Co-operation in India* and in Mr. Crosthwaite's "Co-operative studies."

got ship-shape, to serve, not to be tutor to, the local banks. It is in fact designed to be a *bank*." The questions at issue may be formulated thus—(1) Should the Central Bank dominate the societies too much? (2) Should it combine banking with propaganda, organization and inspection?

1. *Should the Central Bank dominate the societies too much?*

In establishing his thesis that "during the last few years there has been a distinct tendency in several Indian provinces to make the District Central Bank the pivot of co-operative administration," Mr. Ewbank refers to the practice adopted in the United Provinces and it is implied that the practice adopted in those provinces is typical of the system adopted in the other provinces mentioned (*viz.* the Central Provinces and Bihar & Orissa). The U.P. system is thus described in the (1916-17) Administration Report for the United Provinces—

"The system to which we are committed in this province entrusts the finance, supervision and indeed the whole fortune of the movement to the District and Central Banks. These Banks are administered by Boards of Directors who are predominantly urban and professional. Such bodies are, by their constitution, ill adapted to establish the intimate contact required for the fostering and training of such a delicate plant as the young village credit society, and even for its control or finance when adult. The lawyer, banker and other professional gentlemen can hardly be expected to find time constantly to visit villages, often distant, and to find out what their staff is doing there. They are inevitably dependent on their paid staff. * * * Experience has continued to show that too many central societies regard their primaries as customers to be bled than as children to be fed."

The more one looks into the new system the more completely does one find that all power is centralized in Central

Banks. Apart from every individual member being requested to take shares in Central Banks, and every society to deposit their reserve funds in them, one finds that every society belonging to a Guaranteeing Union affiliated to a Central Bank is prohibited from accepting any deposits at all from non-members and is compelled to borrow all its capital from the Central Banks. Comparing Central Banks to "guardians" and primary societies to "wards", a writer in the *Bengal Co-operative Journal* (Nov. 1919) thus corroborates Ewbank's thesis—"As yet there is no sign of the guardians' relaxing an inch of their control over their wards. * * * They (the village societies) are the real units of the co-operative movement and for the ever-ready compliance of their real or supposed wants by their guardians—the Central Banks—they are not getting the gradual strength with the increase of their years. * * * It is for this reason that I am deliberately of opinion that our Central Banks, started with the best of intentions, are indirectly doing harm to the societies in this respect. How many of them are confined to their real work, that of merely balancing capital between the different village societies ?"

Perpetual guardianship—be it over the ward or over the village society—cannot but hinder natural development and growth : it deprives the ward of all initiative and makes of him a perennial baby which would always require spoon-feeding and grand-motherly care and which would never be able to walk on its own feet. The more the powers of a Central Bank are extended over the village societies, the less will be its vitality as a self-reliant, self-helping co-operative unit.

There are many reasons for the view that there is no *permanent* need to keep local societies in tutelage—rather they should be trained to self-management as an educative agency. To start with, and on account of the prevalent illiteracy, there must be leading strings but "those leading strings ought

to be held with a light hand". That is Mr. Wolff's view and it finds a qualified support even from Mr. B.A. Collins—a strong opponent of Mr. Ewbank's thesis, for, says Mr. Collins, "if central banks, guarantee unions or federations centralise, more than is absolutely necessary, either finance or control, the peasants of India, always ready to rely on Government assistance, will never learn to think for themselves and to manage their own affairs" (*Agricultural Journal of India, XIV, II*). Control in the sense of compulsion and dominating interference should not be a permanent feature of a Central Bank's policy *except* under certain temporary circumstances to be described below. The reasons are, in the first place, the control of the Central Banks is not the control of the agriculturists, but that of the expert officials or managers of the banks who must be financiers first and co-operators afterwards. A Central Bank is a *bank* and must be run on strictly business principles by a few financial experts. Again, the "individual" share-holders and the bank officers are townsmen with far more education and skill than their confreres from the country. In dealing with such members of the Central Banks the rural representative is at a great disadvantage, since there is a great gulf fixed between the representatives of the town and those of the country. Moreover, it is not possible for a Central Bank to exercise proper control over primary societies. Its area embracing a whole Tahshil or District, is too wide and its clients too scattered for close mutual knowledge, while its control is too urban for that feeling of proprietorship which societies have in their union.*

We have referred above to certain exceptional circumstances which have in various provinces of India made it necessary to entrust the powers of control to Central Banks

*These lines and the following paragraph are taken from Prof. J. C. Coyajee's excellent article on the subject in the *Bengal Co-operative Journal*, Vol. V., No. 4. It is hardly possible to improve upon him.

as a temporary measure. In those places where primary societies are educationally very backward they cannot be entrusted with the freedom which they can legitimately enjoy in more fortunate provinces. Another tendency which favours the assumption of functions of control by Central Banks is the small size of our primary societies. As Mr. Wolff says, "there seems a rather dangerous tendency in India to overdo the smallness of societies. It is that overdoing which, among other effects, concentrates business in the hands of Central Banks and makes these the 'pivot'—that is a mistake". It must also be admitted that guaranteeing unions have not yet been acclimatised in all parts of India; and in those provinces where they are not yet in existence we must needs entrust the Central Banks with some measure of the function of control over the primaries. There was undoubtedly a period of transition before Indian Co-operation had been furnished with the full equipment of propaganda, supervision and control *vis*, the Co-operative Organization Societies, Central Institutes and Guaranteeing Unions, when Central Banks had to be furnished with more than their normal powers. Mr. Wolff wisely acknowledged that this was for the time the best course. He observes in an article in the "*Bengal, Bihar and Orissa Co-operative Journal*"—"You have in India tried control by Central Banks. And under the circumstances.....that is *for the time* probably the most advisable solution of the problem." But he emphatically says that the Central Banks are only temporarily to be endowed with this additional function of control. "The Central Bank is, *when all has been got ship-shape*, to serve, not to be tutor to, the local Banks." On p. 146 of his "*Co-operation in India*" we find the following corroborating statement—"The placing of too much power and discretion in the hands of what are called Central Banks distinctly militates against good co-operative practice. There must be supervision,

control, and leading strings. However, those leadings ought to be held with a light hand. They do not want to be tightened, as there now appears a disposition to do, but on the contrary, gradually relaxed, so that by being made to think that they are doing things for themselves, members may be gradually taught to do so." No blame need be attached to those who, during such a period of transition, sought or seeks to enlarge the powers of the Central Banks. But objection must be taken when the temporary situation is accepted as an ideal one for all time to come.

(2) *Should the Central Bank combine Banking with Propaganda, Organisation, Inspection and Audit?*

Those who answer this question in the affirmative argue thus—Suppose you have your "pure" bank which does nothing but says 'yes' or 'no' to loan applications, how does it get its knowledge to enable it to discriminate? A loan involves inspection. A money-lender who is advancing money on tangible securities like gold ornaments, wants to test with the help of a touchstone whether the gold of the ornaments is of good quality or not. He then assesses the credit of the borrower. In the case of mortgage loans, the scrutiny of a lawyer is found essential to know for certain that the land has got good titles and that the mortgagor has right to the land. If minute inspection and scrutiny are necessary in case of tangible securities, how much more necessary they must be for the Central Co-operative Banks, when they finance co-operative primary societies the basic security of which is personal. The need of supervision, inspection and assessment of societies' credit by Central Co-operative Banks was fully recognized by the MacLagan Committee in the following paragraph.

"In assessing a society's credit there are many factors which a Central Bank must not overlook. The data on which a primary society fixes the maximum normal credit

of each of its members and the reasonableness of the total borrowing power fixed by the society for itself should be carefully examined and *tested by the Union, or if there is no Union, by the staff of the Central Bank* and these data should, after verification, serve as the basis of credit permissible to the society. It is then for the bank to decide, after considering the needs of the society and the funds at its disposal, at what figure to assess the actual credit of the society for the year. In assessing the credit of a society, the degree to which the society as a whole has developed its co-operative capacities, and the sense of mutual obligation among its members, is of the most valuable consideration."

So long as a central propagandist body—preferably a Union of Societies—is not started in every province to undertake the works of Organization, Propaganda and Education, Central Banks have to perform these functions as best as they can. The illiteracy of our people and their innate conservatism demand ceaseless educational and co-operative propaganda work among them; it is the direct interest of Central Co-operative Banks to foster co-operative ideas amongst members of their constituent societies. If the Central Bank consists of individuals only, then one might take objection to its undertaking propaganda work because it may naturally give rise to a suspicion that it is anxious for the artificial creation of societies with the selfish motive of dividend hunting; but a mixed type of Central Co-operative Bank is not likely to be actuated by such sordid motives of gain and it can safely be entrusted with the work of propaganda and organization.

Thus it cannot be pronounced, as an absolute canon of co-operative practice, that Central Co-operative Banks shall not undertake the functions of propaganda, organization and education. Time, place and local circumstances have to be taken into account in deciding this question. In the present

transitional stage when Unions of societies have yet to be formed in most of the provinces, when Co-operative Organisation Societies or Institutes have not yet fully developed themselves, propaganda, organization and education must continue to be an important function of Central Co-operative Banks. The function of audit should, as at present, continue to be done by an outside agency appointed and paid by Government. Central banks should have nothing whatever to do with audit, except to see that the defects pointed out in audit notes are remedied.

In conclusion co-operators should take note of the following words of warning uttered by Mr. B. A. Collins, lately Registrar of Co-operative Societies, Bihar & Orissa, in the course of an article in the *Agricultural Journal of India* (Vol. XIV, ii)—

“If central banks, guaranteeing unions or federations centralise, more than is absolutely necessary, either finance or control, the peasants of India, always ready to rely on Government assistance, will never learn to think for themselves and to manage their own affairs. They must have advice and control but *in their own* villages and not at headquarters, and this advice and control must take the form of making themselves to decide their own policy, whether in respect of new members, or personal credit or what not. If they do this under guidance, in time they will learn to do it themselves ; otherwise co-operation will never rise above the level of a semi-official *takavi*.” *

CHAPTER XVII.

HIGHER CO-OPERATIVE FINANCE : PROVINCIAL CO-OPERATIVE BANKS.

Although the MacLagan Committee recommended the early institution of "Apex" Banks in all the provinces of British India, the United Provinces and the Punjab are still without such apex banks. But all the other provinces of India including Burma have each one such bank. These apex banks have different names in different provinces, as the following list of existing apex banks will show—

- (1) The Bengal Provincial Co-operative Federation.
- (2) The Behar and Orissa Provincial Co-operative Bank.
- (3) The Madras Central Urban Bank.
- (4) The Provincial Co-operative Bank, C. P. & Berar.
- (5) The Bombay Central Co-operative Bank.
- (6) The Upper Burma Central Co-operative Bank.
- (7) The Assam Provincial Co-operative Bank.

Though the names and constitutions differ, they all perform the functions of Apex Banks as conceived by the MacLagan Committee. "The extent of supervisory duties of the Central Bank," the MacLagan Committee remarks, "would of course, vary according to the existence or non-existence in the province of a Union system and the efficiency of that system when it existed. Although this edifice affords adequate additional assistance to the Registrar in the matter of supervision and audit of primary societies, it is by no means complete as regards finance. In the absence of an apex controlling institution Central Banks have to make such arrangements as they can, either by circularising each other or through the Registrar, to lend out their surplus funds or to borrow to meet their needs. This system is inefficient and

uneconomical when the work is done by the Central Banks themselves and, if it is carried out by the Registrar, entails a substantial addition to his already onerous duties. Moreover, uncontrolled inter-lending among Central Banks involves an inter-locking of liabilities which may well lead to trouble. In some provinces, too, the Central Banks are unable unaided to secure locally sufficient funds to meet their needs, and these can best be provided by a bank capable of attracting deposits from the richer urban classes and more suitably equipped to serve as a channel between the co-operative movement and the Presidency or Joint Stock Banks. It is, therefore, in our opinion, necessary to provide in each of the major provinces an apex bank which will co-ordinate and control the working of Central Banks, forecast and arrange for the provincial requirements as a whole and be the financial co-operative centre of the province. An apex bank of this nature should have as its express object the direction of provincial finance by the control and support of Central Banks. Central Banks should be prohibited from dealing with each other or with Presidency or Joint-stock Banks except through its medium while it should itself be obliged to confine its dealings with co-operative institutions to Central Banks and leave to them the work of dealing with societies."

1. The Bengal Provincial Co-operative Federation, Ltd.—Up to the end of the year 1917 the Registrar of Co-operative Societies, Bengal, was the intermediary between the needy Central Banks and the Calcutta financiers: it will come as a surprise to many to learn that a sum of about Rs. 25 lakhs was invested directly in the Central Banks through the then Registrar of Co-operative Societies—Rai J. M. Mitra Bahadur—who had to exercise a personal supervision over the investment of this money and to provide the labour to keep accounts of it. The establishment of a Federation of Central Banks in Calcutta in which the constituent Central Banks

would take joint responsibility was thought to be the only way in accord with the Maclagan Committee's recommendation quoted above.

Accordingly, the Bengal Provincial Co-operative Federation, Ltd, was, with the permission of the Local Government and of the Government of India, registered in February, 1918. The operations of the Federation are intended to extend to the Presidency of Bengal, but it may deal with the Provincial Co-operative Banks of other Provinces. Its objects are to finance the co-operative movement in Bengal and to grant loans or advances to members (being Central Banks) and, with the permission of the Registrar, to other registered societies, whether members or not, upon such security as may be thought fit.

It has an authorised share-capital of 10 lakhs of rupees, the shares being held only by registered co-operative societies in the presidency of Bengal. The Board of Directors consists of not less than 9 and not more than 18, including the Chairman. All, except a maximum of three members of the Board of Directors, are elected by the share-holders from among officers or members of registered societies who hold not less than 20 shares in the Federation (if nominated by the registered society on that behalf). Thus co-operative interests fully predominate in the Directorate presided over by a non-official elected Chairman. The three outsiders either represent the interests of depositors or supply the necessary business and banking ability. The Bengal Federation does not contain any Founder-members or Preference share-holders; but it is a pure and ideal co-operative apex Bank—an ideal to which all provincial banks must approximate before we can have a truly co-operative All-India Bank. It, of course, receives deposits from outside individuals or corporate bodies; and though the rates of interest allowed for such deposits have been generally lower than current

market rates, deposits have flowed in, more or less uninterruptedly, ever since the institution of the Bank. Depositors realize that the security of a pure-type co operative federation backed, as it is, by the assets of the whole movement in Bengal, is the best security that any one can have for his deposits. Thus the Balance sheet of the Federation shows that on December 31, 1919, its deposits amounted to more than 21 lacs, after scarcely two years' working, as against the Bombay Central Bank's 19 lacs (on March 31, 1919) after more than eight years' working ; the following remarks in the first Report of the Directors of the Federation justify the views expressed above— "Public confidence in the Federation has become so great that deposits have freely poured in upon it enabling it to reduce the rates it is offering below the rates offered for similar periods by Government, thus providing for a considerable increase in the margin of profits in the near future, and making it possible to look forward to a general reduction of interest in favour of its members within a few years". Recently, however, owing to great tightness in the money market, the members of the Federation have had to agree to increase the deposit rates to $7\frac{1}{4}$ per cent in order to enable it to raise deposits sufficient to meet the demand of its members.

The profits of the Federation have gone on increasing from year to year. During the year ending December, 1918 the net profits of the Federation amounted to Rs. 13,403, while during the year ending December, 1921, it amounted to no less a sum than Rs. 44,076 ; in view of the big amount of profit, the Directors thought of granting a rebate to members ; but, on further consideration, they thought it of utmost importance that a Bad Debt Fund or, as it is called, a Special Reserve Fund, should be opened, specially as it was not unlikely that one or two Central Banks might suffer some loss. The Directors rightly observe—"ordinary prudence

requires that an apex bank having dealings with all the Central Banks in the Province should make adequate provision for bad debts. The Federation is regarded by the Calcutta money market as the representative institution of the co-operative movement in the Province; a strong reserve and an ample provision for bad debts will raise it greatly in its estimation and enable it to secure sufficient capital to meet all demands". Accordingly, the sum of Rs. 8,900 has been allocated out of the profits of the year 1921 to form the nucleus of such a Bad Debt Fund—or, rather, the "Special Reserve Fund". This sum, together with the Depreciation fund of Rs. 21,854 and the total Reserve Fund of Rs. 26,542 (at the end of the year 1921) has contributed largely to enhance the credit of the Federation in the money-market.

During the year 1921, the membership of the Federation has increased from 70 to 76 and the share-capital from Rs. 2.76 lakhs to 3.03 lakhs. The deposits on 31st December, 1921, stood at Rs. 19.32 lakhs as against Rs. 18.91 lakhs of the previous year. Loans to the amount of Rs. 17.38 lakhs were issued during the year, 1921, as against 13.83 lakhs of the previous year. Repayments from members amounted to 16.38 lakhs. Cash credit with the Imperial Bank of India stood at Rs. 7,44,855. On the 31st December, 1921, the liquid resources of the Federation were—

Undrawn cash credit.....	7.30 lakhs
Short-term deposit in Allahabad Bank.....	50 lakhs
Total.....	7.80 lakhs

Taken at the standard recommended by the MacLagan Committee liabilities which should be covered by fluid resources were as follows—

- (1) One-third of the deposits maturing
in 12 months.....2.45 lakhs
- (2) Seventy-five per cent of the
current deposits held.....3.16 lakhs
- (3) Undrawn balance of Cash credit
sanctioned to the Central Banks...2.04 lakhs

Total.....7.65 lakhs

It will be seen from the above that the fluid resource was adequate and that the financial position of the Federation was quite sound.

A noticeable feature of the relations between the Federation and its constituents is the absence of any "domination" or "control" such as that to which Mr. Ewbank objected in the case of Central Banks. This will be evident from the fact that at the Second Annual General Meeting of the Federation it was decided that Central Banks might accept money direct from Calcutta financiers, but that they should not offer higher rates of interest than those at which money is obtainable from the Federation. It was also decided that a Central Bank might accept deposits from another Central Bank, but, as this might interfere with the security of the Federation, it was desirable to take the permission of the Registrar in all such cases.

Another noticeable feature is the new bye-law regarding the Reserve Fund which was adopted at the third Annual General Meeting of the Federation; the bye-law runs as follows :—"The Reserve Fund shall belong to the Federation and be indivisible amongst the members. It shall ordinarily be invested in Government Securities, Post Office Savings Bank or any co-operative institution approved by the Registrar, or in any other manner laid down in Section 32 of the Co-operative

Societies' Act The Reserve Fund shall be available for any of the following purposes :—

- (i) To cover any loss arising from any unforeseen circumstances, such drawing upon it being reimbursed to the fund from the next accruing profits.
- (ii) To meet any call on the Federation which cannot be met otherwise, such payments being reimbursed to the fund when fresh collections are made.
- (iii) To serve as security for any loans which the Federation has to contract.

In the case of dissolution of the Federation the Reserve Fund shall be applied to such purpose as may be determined, with the approval of the Registrar, by the majority of the members."

The services rendered by the Federation to the cause of Co-operation in Bengal have been of great value. During the very first year of its career, it saved the movement from a panic, if not an actual disaster, by coming to the timely aid of the largest Central Bank in the Province in a severe crisis brought about by an unfortunate combination of circumstances which had later completely altered. The Federation has been responsible also for enabling the largest and most prosperous society of cultivators in India—the Naogaon Ganja Cultivators Society, Ltd.—to embark upon its successful career. It has further provided investments in its current and short-term deposits at remunerative rates for several lakhs of rupees which would otherwise have lain idle in the hands of the Central Banks for several months. The Federation's progress has been greater than was expected, but there has been no forcing of the pace. It was meant to supplement the resources of its members as required and to assist them in other ways as far as possible. It was also meant to keep money employed all the year round. It has accomplished

these purposes and it is bound to expand as the convenience of its members calls for expansion.

2. **The Bihar and Orissa Provincial Bank:**—This Provincial Bank, which was registered in April, 1914, is designed to deal exclusively with Central Banks and Unions in Bihar and Orissa, but it may, with the sanction of the Registrar, make loans to primary societies in areas where there is no Central Bank or Union. It is not a "pure type" bank like the Bengal Provincial Co-operative Federation, Ltd. ; it is a bank of the mixed type in which both individuals and co-operative societies are share-holders.

The management of the business and affairs of the bank is entrusted to a Board of Directors consisting of not less than ten members. The qualification for a Director is that he should hold shares in the Bank of the face value of not less than Rs. 1,000/- with the exception of Directors elected by Central Banks and Unions. Two Directors are nominated by the guarantee share-holders, and three directors are elected by Central Co-operative Banking Unions holding shares in the Bank. The remainder are elected by the General Meeting. Members of the Board of Directors retire annually, but are eligible for re-election. The Registrar of Co-operative Societies, Bihar and Orissa, is an ex-officio Director, but has not any interest in the shares of the Bank. The Chairman, who presides at all meetings of the Bank and of the Board, is elected at the General Meeting. The Board elects its own Secretary or Secretaries and Treasurer who need not be Directors. If a vacancy in the office of the Chairman arises during the tenure of one Chairman, the Directors may appoint an *ad interim* Chairman who holds office till the next General Meeting.

The Bank has an authorized capital of Rs. 7,00,000, The shares of the bank are of two classes—(1) 4000 Guarantee shares of Rs. 100 each fully subscribed, on all of which

Rs. 5/- per share has been paid up. The remaining portion is a reserve liability which can only be called up to meet the claims of the Imperial or any Joint-stock Bank in two instalments of Rs. 45 after two months' and the balance of Rs. 50 after five months' notice ; (2) 600 Preference shares of Rs. 500 each of which 486 have been subscribed by private persons and by Central Banks and Societies ; on each of these shares Rs. 200 has been paid up, and the balance of Rs. 300 forms a reserve liability only enforceable in the event of liquidation of the Bank.

The seventh report of the Bank for the year ending on the 31st of May 1921, shows that the working capital of the Bank had risen from nine to over fifteen lakhs ; the Reserve Fund amounted to about Rs. 60,000 and the profits of the year amounted to Rs. 22, 831 out of which Rs. 14, 719 was available for distribution of a dividend of six per cent and a bonus of one per cent was allowed to the Preference shareholders.

The progress of the Bank has hitherto been satisfactory, though it is to be hoped that every endeavour will be made to utilise to the full the resources of the bank which are now showing rapid expansion. It is also desirable that attempts should be made gradually to eliminate the private individual shareholders and to approximate towards the attainment of the pure-type ideal.

3. The Madras Central Urban Bank, Ltd. :—This Bank was registered as an Urban Society under India Act X of 1904 and the shares were all held by individual shareholders : from its very inauguration it lent to primary societies throughout the Presidency and was only distinguished from other Central Banks by the fact that its loans were made over a wider area : it also lent to its own individual members on the security of their deposits. Up to the end of March 1917 there was no representation of societies on the Board of Directors, though suggestions were now and then put for-

ward for the conversion of the Bank into an Apex Bank by so modifying its constitution as to admit of societies becoming share-holders and being represented on the Directorate.

The Madras Central Urban Bank was finally converted into an Apex Bank on and from the 1st of April, 1917. The new bye-laws, as amended at the Extraordinary General Meeting held on the 28th February, 1920, declare that the Bank shall have for its main objects—(1) to collect funds for financing co-operative societies and (2) to serve as the Provincial Central Bank for the Presidency of Madras. It has an authorized share-capital of Rs.6,00,000 made up of 2,000 preference shares of Rs. 100 each and 4000 ordinary shares of Rs. 100 each. Preference shares are held by the original individual share-holders or their legal representatives ; provision is made in the bye-laws for gradually buying up and eventually extinguishing these preference shares. The 4000 ordinary shares are to be allotted at par by the Executive Committee exclusively to Central Banks, but all ordinary shares allotted to societies other than Central Banks prior to 1st July 1919 will continue to be held by such societies unless and until transferred to Central Banks in accordance with the bye-laws. Thus the members of the Madras Central Urban Bank now include 383 individual preference share-holders, 31 Central Banks and 59 co-operative societies other than Central Banks. When the processes of buying up and transferring-of shares are completed the Bank will become converted into a pure-type federation like that of Bengal. The present constitution of the Bank is, however, a distinct improvement on its original character as a bank composed entirely of individual members. Now under the new constitution each central bank—up to a maximum of fifty—which holds ordinary shares of the face value of not less than 10 per cent. of its paid-up share-

capital is entitled to nominate by a resolution of its Directors one member to the Board : such a nominee must be a member of that Central Bank. The preference shareholders are entitled to elect a number of members not less than twelve and not more than one half of the number of Central Banks entitled under the bye-laws to nominate a member. The Central Banks have thus a leading voice in managing the affairs of the Bank. The Board of Management elects from among themselves a President and a Vice-President. The entire administration of the Bank vests in the Board, and, subject to the control of the Board, in the Executive Committee consisting of the President, the Vice-President and seven other members elected by the Board of Management and holding office for three years or till their successors are appointed. All except one of the 32 Central Banks in Madras are now members of the Provincial Bank.

One fourth of the net profits each year is carried to the credit of the Reserve Fund ; the remaining three-fourths is, together with any amount brought forward from the previous years' account, available for payment of a dividend not exceeding 9% upon the fully paid up preference shares. Out of the surplus a dividend not exceeding 9% may be paid on the paid-up amount of ordinary shares. Out of what then remains the following allotments may be made—(1) a sum not exceeding 10% of the net profit of the year towards the Building Fund, (2) a sum sufficient to cover the probable working expenses of the Bank for a period not exceeding three months, (3) a bonus to the members of the establishment not exceeding one month's salary. There is a Dividend Equalisation Fund which, together with the interest accruing thereon, is kept apart and reserved for the exclusive benefit of the preference shareholders to be drawn upon whenever the annual profits are insufficient to pay in full a dividend

of 9% on preference shares. The Reserve Fund is one and indivisible and belongs to the shareholders of the Bank collectively: it cannot be drawn upon except to make good the losses: no shareholder can claim a specified share in it.

The following statement shows the progress made by the Provincial Bank during the year 1920-21 as compared with the previous two years—

Years.	Share Capital.	Deposits.	Working Capital.	Net Profits.	Reserve Fund.
	Rs.	Rs.	Rs.	Rs.	Rs.
1918-19—	2, 32, 860	43, 96, 527	47, 32, 322	63, 685	1, 44, 621
1919-20—	3, 44, 120	50, 60, 105	55, 47, 925	70, 054	1, 54, 978
1920-21—	4, 77, 700	61, 56, 312	67, 92, 712	90, 484	1, 81, 321

4. The Central Provinces and Berar Provincial Co-operative Bank :—The Provincial Co-operative Bank of the Central Provinces and Berar was registered in April 1912. This bank is the final link in the chain connecting the village co-operative credit societies with the ordinary money-market. It was not originally intended to supply all the capital required by the movement, but to supplement temporary deficiencies of local capital. Central Banks were not originally shareholders in the Provincial Bank, and they were free to deal with the Provincial Bank or not as it suited their convenience. The Provincial Bank did not handle cash, all money being received and disbursed on its behalf by the Jubbulpore Branch of the Allahabad Bank. Cash credits were not granted to Central Banks, but every application for a loan was dealt with on its merits by the Directors of the Bank who had, however, delegated certain definite powers to the Registrar.

Originally all the share-holders were individuals and the Board of Directors of the Bank did not contain any representatives of Central Banks, though, of course, several of the Directors were also on the Managing Committees of Central Banks. Under the present by-laws, however, many of the objectionable features of the constitution of the Bank have been sought to be removed. The Board of Directors now consists of the Governor of the C. P. and Berar Federation and one representative from amongst the Directorate of each co-operative bank which is a member of the C. P. and Berar Co-operative Federation and also of the Provincial Bank. There are now no Founders' shares or Preference shares ; all shares are now of the face value of Rs. 50/- each. The authorised share-capital of the Bank is Rs. 7,00,000 divided into 14,000 shares of Rs. 50/- each which can be subscribed by individuals or by registered co-operative societies in the C. P. and Berar. The Bank is thus a mixed type bank which lends money to all registered co-operative societies in the C. P. and Berar—be they Central Banks or any other types of co-operative societies—provided they are members of the Co-operative Federation of the C. P. and Berar. It should be noted that the clients of the Bank need not be its share-holders : but they must be affiliated to the C. P. and Berar Co-operative Federation.

This close inter-connection between the Provincial Bank and the Provincial Federation has recently led to disastrous financial results. For some months before the financial collapse of 1920, the Provincial Bank and the Federation were inter-locked by joint meetings of the managing directors of the Provincial Bank and the members of the executive council of the Governor of the Federation. "In the light of past events," the King Committee of 1922 observe, "we note, with some surprise, that at the very first of these joint meetings the Governor invited attention to the obligation

of the provincial bank to maintain fluid resource for all the banks. We have perused the records of proceedings of the joint meetings, and the conclusion to which we are driven is that they show that the finances of the movement, and specially of the Provincial Bank, were subordinated to discussions bearing upon other matters. In particular, we find that a joint meeting held on the 13th January, 1920, sanctioned cash credits to various central banks amounting to Rs. 43,90,000, a commitment which was, in our opinion, rash and unbusiness-like having regard to the financial position of the Provincial Bank at the time. Again, at a joint meeting held on the 8th February, 1920, further cash credits of Rs. 75,000 were granted to central banks, so that in February 1920, the Provincial Bank was under contract to find Rs. 44,65,000 in cash on demand.* At the same meeting it was resolved that the Governor of the Federation should request the Registrar to register new societies so that the co-operative banks may find adequate scope for investment of the funds in their hands and thus may have no occasion to refuse to accept deposits; and it was also resolved that the loans granted by the Governor to the various central banks from the 1st July, 1919, up to date (*i.e.* during a period of no less than seven and a half months) be sanc-

* Over and above this heavy commitment there was the further liability on account of deposits. "No bank dealing in deposits and granting cash credits can hope to escape with impunity from a position in which it finds itself unable to deliver money according to contract." Such, however, was the position in which the Provincial Bank found itself at the close of 1920. We find that in October, 1919, the Provincial Bank was in sufficient fluid resource amounting to 14 lakhs, representing 33½ per cent. of the deposits falling due for repayment within the next twelve months. The fluid resource or cash reserve then increased in amount and reached its maximum in February, 1920, when it stood at 19 lakhs representing 42 per cent. of the deposits falling due for repayment in the next twelve months." In the course of the next few months—from March, 1920, to October, 1920—it fell to only 1 lakh of rupees—"until by November, 1920, the Provincial Bank was leading a hand to mouth existence and was not only unable to finance the central banks but was in a position of serious danger with respect to its obligations to depositors and other creditors."—*King Committee's Report (C. P.) p. 4.*

tioned. This sanction with retrospective effect covered advances amounting to Rs. 6,85,000. The objections to procedure of the kind followed in these joint meetings require no description. Further, we find that, following up the policy of rapid expansion on which the Federation had launched and to which it committed the provincial bank, grants were made to various central banks with which to pay organizers of credit societies."*

This interlocking of the Provincial Bank and the Federation was wrong in theory and against accepted co-operative practice : it was financially dangerous to have placed the Provincial Bank under the control of the Federation. We agree with the Committee's view that "it is this entanglement which has contributed more than anything else to the collapse of the higher co-operative banking organization in the Central Provinces"

To remedy the defects that were brought to light in the course of their enquiry, the King Committee recommended, among other things, the liquidation of the Provincial Bank and the issue of loans by commercial banks. There is no denying that the Provincial Bank's procedure in discharge of its duties was unbusiness-like and that it allowed its working to be interlocked with and influenced by the Federation. But when all is said on the subject there is the undeniable necessity of having a Provincial Bank : the arguments advanced in the Report to disprove the necessity of such a Bank are of an unconvincing nature though there was enough material afforded by the conduct of the particular Bank to raise doubts about the utility and efficiency of banks conducted on those lines.

Throughout the co-operative world consolidation is the order of the day, and when we are all thinking of the

* King Committee's Report (C. P., 1922), P. 31.

coming federation of the Provincial Co-operative Banks into an all-India Co-operative Bank, it is positively disconcerting to hear of the liquidation of an already existing Provincial Bank. If on occasions there has been a deviation from the observance of sound banking principles, it would not be politic to suggest the liquidation of the Provincial Bank. It should be disentangled from the Federation, its life should be prolonged and invigorated by having an experienced banker as its manager and by having two or three business men on its directorate. That is how the Bengal Provincial Co-operative Federation is being managed so successfully year after year. Moreover, the liquidation of the Provincial Bank and its supersession by commercial banks would have a most unhealthy effect on the activities of Central Banks which, disjoined from the tie of the Apex Bank, will be like flying atoms which will die out of growing weakness. Happily for the cause of co-operation, the C. P. Government have not accepted the Committee's proposal for liquidation, as the following extract from their Resolution, dated Nagpur, the 14th July, 1922, will show—

"There are strong arguments in favour of an apex bank, provided that central banks are not converted into so many tied houses, that full use is made of local knowledge in the management of its affairs, and that the banking principles enunciated in the committee's report are observed. The Local Government agrees with the committee that the primary functions of a provincial co-operative apex bank are as follows :—

- (a) the attraction of deposit money other than that which central banks can obtain for themselves :
- (b) the rediscount of co-operative paper :
- (c) the provision of a centre through which *plus* central banks can pass their funds to *minus* central banks.

The Local Government considers that the failure of the

Provincial Co-operative Bank was due not merely to the errors in procedure mentioned in the report but to the fact that it could not command enough credit in the money market. It is clear that the bank has not obtained much money from individual depositors during the last five years ; and it is also clear that it has not been able to increase its credit with the commercial banks. These are weaknesses which the Local Government thinks might be remedied and believes that an attempt should be made to do so. In paragraph 4 of the committee's report it is pointed out that the redemption by central banks and societies (from their reserve fund) of the shares originally held by individuals was effected on two different dates and that at present the distribution of shares amongst the central banks and societies is very unequal. If the apex bank is to be the property of the credit movement as a whole, then the shares ought to be distributed as evenly as possible and without prejudice to the interests of the older banks and societies on whose shoulders and reserve funds an undue proportion of the cost of redemption fell. What is, in fact, required is the re-organization of the Provincial Bank on the following lines. In the opinion of the Local Government the Registrar should undertake an enquiry into the affairs of the Provincial Bank with a view to its dissolution and reconstitution on the basis of an equitable redistribution of shares among all central banks and rural societies. He should prepare fresh by-laws providing for representative local advisory boards and a central controlling board. A responsible manager with banking experience must be appointed, and it must be part of his duties to inspect the offices and affairs of central banks and advise their directors on banking matters. Pending reconstruction the Provincial Bank will continue its business subject to the advice and instructions of the Registrar. His Excellency the Governor acting with his

Minister considers that these steps should be taken without delay."

5. The Bombay Central Co-operative Bank :—

The idea of this Bank originated from the experience gained in the Bombay Urban Co-operative Credit Society which was started in 1906 on the suggestion of Mr. Macneill, first Registrar of Co-operative Societies in Bombay, with the object of making loans to the village societies at a reasonable rate of interest. All the available funds of this society were readily taken up, and it had had to reject several applications from village societies owing to the fact that more advances could not be made without enlarging the basis of the society, and adopting some means whereby outside capital could be attracted into the movement. Acting on these premises the late Sir Vithaldas Thackersey and Mr. Lalubhai Samaldas drew up a scheme for a Central Bank which, with a few modifications, was finally approved by the Government of Bombay and later received the sanction of the Government of India and the Secretary of State.

The Bombay Central Co-operative Bank was registered in 1911. Fourteen thousand shares of Rs. 50 each have been issued, subscribed, and fully paid up. The bank is empowered to issue debentures up to the value of three times the paid-up share capital, subject to a maximum of 20 lakhs, and on these debentures Government guarantees a rate of 4 p. c. until they are redeemed. A sinking fund has been provided for at a rate which would entail the extinction of all debentures within not more than 41 years of their issue. In view of the existence of this sinking fund, the bank has been exempted from the provisions of the Act requiring it to carry 25 per cent. of its profits to reserve. A reserve—called the "Reserve for doubtful debts"—is, however, maintained to meet possible bad debts : this reserve now amounts to Rs. 55,000.

Loans are made to any registered co-operative society in the Bombay Presidency for periods varying from 9 months to 10 years at a rate of 7 to 7½ per cent according to the character of the borrowing society. The rate of interest chargeable on loans is limited by agreement with Government to a maximum of 8 per cent. Since the establishment of the bank a dividend has been paid at 6 per cent under the agreement with Government. Half of the profits in excess of the amount needed to pay this rate is refunded to borrowing societies in the form of a rebate of interest on loan.

This bank deals direct with all societies borrowing from it subject only to the restriction that every loan must be granted with the previous sanction of the Registrar. For the purpose of assessing the credit of applicants three special *Mamlatdars*, selected from the Revenue Department, were employed under the Registrar, and paid half by the Central Bank and half by Government. In 1921, these borrowed officers were replaced by the Bank's own Inspectors. They visit any society requiring a loan and prepare a valuation statement of the land held by members, which they submit to the Registrar together with a report on the general working of the society. The Registrar, after referring to the audit note and the past record of the society, transmits the papers to the Directors of the Provincial Bank for ultimate decision stating the maximum up to which a loan may be granted—a figure which generally does not exceed one-third of the estimated value of the property. When the loan is sanctioned, the amount is sent direct to the society by R. T. R.

The Bank was originally of the purely individualistic type, all the share-holders being private persons, its directorate was also elected by the shareholders and consisted of leading business men resident in Bombay city, but did not include any persons sitting as representative of societies. This was

certainly not a desirable form of constitution, and it was felt that some scheme should be devised to make the Bank more co-operative in its constitution by making it compulsory for borrowing societies to become members of the Bank. Mr. Ewbank gave four reasons for effecting this change—

Firstly, the profits of the bank were absorbed by subscribing members who were not co-operators. Secondly, co-operators should have a voice in the matter of the Bank granting short-term loans instead of long-term loans. Thirdly, the Bank's directors, not being co-operators, were unable to understand the difficulties of the societies. Fourthly, there was a probability that, not being members of the Bank, co-operators might be induced to regard it as an alien concern. Happily, the directors willingly fell in with idea of enabling societies to become shareholders and undertook to find shares for such societies as were anxious to purchase them. As the result of a circular issued by the Registrar, the individual share-holders are gradually being replaced by society share-holders ; there are now 783 individual members and 171 society members of the Bank and, similarly, the directorate also is becoming more and more representative of co-operative interests. Moreover, the Provincial Bank which was started to finance primary societies all over the Presidency is gradually being displaced by district central banks and its operations with primary societies direct are confined only to the canal areas and to such districts as have no central banks.

On the 31st of March, 1921, the Bank had a total working capital of more than 48 lakhs of rupees, half of which was composed of fixed deposits. The Bank advanced more than 42 lakhs of rupees as loans to co-operative societies and banks and made a profit of about eighty thousand rupees.

6. The Upper Burma Central Co-operative Bank :—This Bank was registered in October, 1910 ; it is not in the strict sense of the term a Provincial Bank, but it fulfils

many of the functions of such a Bank. Nearly two thousand societies are affiliated to it, and its operations extend to the whole province. The membership consists of societies (2080) and individuals (307), the shares being valued at Rs. 100 each. The Bank has an authorised capital of seven lakhs of rupees. The funds of the Bank are provided almost entirely by means of long-term deposits repayable in from one to five years. The Bank receives no subvention from Government.

It supplies money to the eleven existing Central Banks, but outside those districts which have Central Bank it deals with the societies to which loans are made on the guarantee of the unions and on the basis of the credit assessed by them. Money is advanced up to the amount sanctioned by the union solely on the responsibility of the Registrar, through whom all applications are made. He sends a requisition to the Manager of the Bank who has no discretion but to comply with it. The Provincial Bank exercises no audit or supervision, but new societies are only started within existing unions.

The General Meeting consists of the individual shareholders and of one delegate from each share-holding Co-operative Societies, and of District Co-operative Banks. The directorate consists of (1) fourteen individual share-holders elected by the General Meeting of whom 12 shall be resident in Mandalay Municipality, (2) *ex officio* all Chairmen of the District Co-operative Banks and of Unions of Co-operative credit Societies in Burma, (3) the Manager and (4) the Assistant Manager.

The entire control is, however, in the hands of the Registrar who, under the by-laws, requisitions all loans (unless he has sanctioned a cash credit for a society); fixes a maximum limit within which the bank may receive deposits; approves the allotment of shares, all borrowings from outside and the investment of the reserve fund and all drawings on it; declares

the annual net profits and sanctions any increase in the rate of interest charged to societies beyond 10 per cent. Besides this, as it may be called, statutory control and his legal power of audit and inspection, the Registrar actually decides at least the main principles on which deposits are to be taken. To all intents and purposes, he is the bank, yet his financial responsibility is nowhere defined, though it is stated in a leaflet issued by him that Government accepts no liability for the debts of the bank. The Bank has at present a subscribed capital of Rs. 4,77,700 of which Rs. 3,01,250 has been paid up, it has a Reserve Fund of Rs. 2,35,600.

7. The Assam Provincial Co-operative Bank, Ltd.—This is the youngest of the Provincial Co-operative Banks in India : the idea of starting it was mooted during the sessions of the first Provincial Co-operative Conference held in Shillong in September, 1921. The Bank commenced operations at the beginning of the year 1922. It has an authorised capital of five lakhs of rupees. All the Central Banks are now members of the Provincial Bank which is now being efficiently managed by a strong Board of Directors composed of Indians and Europeans. It is hoped that this Bank will be the means of bringing the co-operative movement in Assam into touch with the outside money-market.

There is no Provincial Bank in the United Provinces, nor is there any idea of starting one in that Province ; in the Punjab the proposal of a Provincial Co-operative Bank is under consideration,

Financial details of the existing system of Provincial Co-operative Banks in India :—The table below shows the working capital, as it stood at the end of the official year, 1921, of the six banks mentioned above (except

the Assam Provincial Bank which has only just been started) and the sources from which this capital was obtained—

	Share capital paid up.	Loans and deposits held at the end of the year from			Reserve and other funds.	Working Capital.
		Societies.	Provincial or Central Banks.	Individuals and other sources.		
Madras	4,77,700	3,14,951	...	58,41,361	2,13,404	68,47.4 6
Bombay	7,00,000	17,29,112	...	20,87,499	1,94,280	47,10,891
Bengal	2,97,500	5,985	3,94,011	13,30,907	12,642	20,41,045
Bihar and Orissa.	1,17,200	1,02,317	4,37,669	8,22,333	60,101	15,39,620
Burma	5,74,960	7,42,433	...	70,29,129	3,33,161	86,79,673
C. P. and Berar.	6,01,250	16,010	14,93,531	17,91,496	1,20,152	40,22,439
Total (Br India.)	27,68,600	29,10,808	23,25,211	1,89,02,725	9,33,740	2,78,41,084

As regards share capital, all the shares of the Bengal and the Central Provinces and Berar Banks are held by societies: these are the only two pure-type Provincial Banks in India. The other banks are of the mixed type. In Bombay and

Provincial Banks.	Individual members.	Society members.
Madras.	383	90
Bombay.	783	171
Bengal.	...	72 (only Central Banks).
Bihar and Orissa.	24	30
Burma.	307	2,025
C. P. & Berar.	...	2,393
Total (Br. India)	1,497	4,836

Madras the individual shareholders predominate: they were both originally of the purely individualistic type, and have only recently thrown open their shares to co-operative societies. The deposits in these banks consist partly of sums received direct from individual members or the outside public

and partly of funds passed on by Central Banks and societies.

The usual rate of interest on borrowings by the Provincial Banks varies from 4 to 8 per cent., while that on loans varies from $6\frac{1}{2}$ to 10 per cent. The usual rate of dividends paid on shares of the Provincial Banks varies from 6 to 9 per cent. All of them have worked at a profit, the total profits for the year 1920-21 amounting to Rs. 2,95,631.

The Maclagan Committee's Recommendations :—The following opinions and recommendations of the Maclagan Committee on the subject of Provincial Co-operative Banks demand careful attention :—

It is necessary that a Provincial Bank should be started in each of the major provinces.

The Provincial Banks should not be started on an extravagant or unnecessarily large scale.

Share capital *plus* surplus assets fund should not be less than one-tenth of total funds borrowed from outside.

Societies and Central Banks should be represented in the management of a Provincial Bank and should be placed in such a position that they are able within a reasonable time to secure a majority of votes in the general meeting. At commencement individual shareholders may have a preponderating influence.

It is not, however, necessary that societies and Central Banks should have a dominating voice on the Directorate of the Provincial Bank.

Shares should ordinarily be of one class. Reserve liability is not advisable on individual shares, but is unobjectionable on societies' shares.

All Central Banks should be affiliated to Provincial Banks, but where there is no Central Bank, a Provincial Bank may lend direct to primaries.

Deposits fixed for longest possible terms should be secured.

Deposits at call should be covered to 75 per cent. of their amount by fluid resources.

No prohibition should be placed on savings deposit accounts,

Provincial Banks should not place too much reliance on cash credits, and should strive to accumulate good reserves and strong holdings of liquid securities in order to be more independent.

The Provincial Bank should maintain a fluid resource sufficient to cover all possible demands against itself for a period of one-third of the ensuing year together with all the possible liabilities to be met by any affiliated Central Banks for which it has undertaken to provide within the same period. For this service to Central Banks it should charge a commission or higher rate of interest. It will be found convenient to concentrate the whole fluid resource at the apex of the system.

Provincial Banks should be prohibited from undertaking outside banking business, except in so far as it is necessary to deposit spare funds for short periods in outside institutions.

A Provincial Bank may legitimately be reluctant to lend its superfluous funds to another Provincial Bank unless the borrowing bank has sufficiently proved its credit-worthiness, and the lending bank is able itself to examine and verify the financial position of the borrower.

A separate audit of the accounts by a Chartered or Incorporated Accountant authorised by the Registrar is desirable. The whole expense of it should be borne by the Bank. Further duties of supervision and enquiry appertain to Registrar, and cost is debitable to Government.

Provincial Banks should submit the same returns as Central Banks ; and should be supplied by the Registrar with copies of all returns received from affiliated Central Banks. They should publish and distribute to shareholders and depositors annual balance sheets and reports.

The Proposed All-India Co-operative Bank:—The same reasons which justify provincial centralisation of finance in Apex Banks also support the plea for all-India centralisation of finance in an all-India Co-operative Bank. Sir Daniel Hamilton's name is closely associated with this proposal : his idea is clearly expressed in the following lines of his lecture on "An All-India Bank"—"The people, federated, will own the village societies ; the village societies, federated, will own the Central Banks ; the Central Banks, federated, will own the Provincial Banks ; the Provincial Banks, federated, will own the All-India Bank." This is no doubt the ideal which we should always keep before our

eyes; but, for its achievement, three conditions must be fulfilled—(a) all Central Banks should be pure-type ones; (b) all Provincial Banks should be of the Bengal type—financial federations of Central Banks only; and (c) all the Provinces should each have such a Provincial Bank. As all these conditions cannot be fulfilled for a long time to come we must either give up the idea of an All-India Bank or we should formulate a more easily realizable plan. The need for an All-India Bank is already being felt: at the time of writing these lines (November, 1922) there is a superfluity of funds with the Bengal Provincial Co-operative Federation, Ltd., and, in the absence of an All-India Central Co-operative Bank, it has itself lent large sums to other Provincial Banks, but how is it going to examine and verify the financial position of the borrower banks? An All India-Central Co-operative Bank has thus become an immediate necessity for serving as a balancing centre, for conserving the co-operative resources of the whole country, for drawing into the co-operative movement further funds from newer sources, and for an equitable distribution of resources amongst the several Provincial Banks. Although the necessity of an All-India Bank is being keenly felt in the present, its establishment must have to await further developments in the provinces. When the mixed-type Provincial Banks shall have completed or further developed the process of their re-organization into pure-type ones and the Punjab and the United Provinces will have their Apex Banks, the natural process of development will find its completion in the establishment of an All-India Co-operative Bank.

CHAPTER XVIII

CO-OPERATIVE UNIONS AND TRADING FEDERATIONS.

Consolidation and Federation are the watch-words of co-operators on the continents of Europe and America. Just as the local society represents a combination of individuals to obtain better results than those individuals can obtain singly, so the Union or Federation represents a combination of local societies for the same purpose. Western Co-operators have fully realised the value of this federative principle and the result of its application is to be found in the Co-operative Wholesales (*i.e.* Trading federations) and Unions (*i.e.* Federations for advisory and propagandist purposes) and in the wider movement for furthering International Co-operative Trade and Banking. To understand the co-operative backwardness of India and to enable Indian co-operators to formulate a practical policy for strengthening the movement and bringing India into line with the rest of the co-operative world, it is necessary for them to have a clear idea of the development of European Co-operative Unions and Trading Federations.

Continental movements, to begin with, may be divided into three groups *vis.* :—

- (1) Combined Trading and Propagandist Federations,
- (2) Purely Propagandist and Advisory Unions, and
- (3) Purely Trading Federations or Co-operative Wholesales.

In the first group come the movements in which psychological and material activities are centralized in the Federation which carries on the propaganda and defence as well as wholesale trading operations. The "Centrosoyus" or the All-Russian Central Union of Consumers' Societies (comprising 333 depart-

mental and federal Unions each having a membership of over 10,000, with a capital of over 120 million roubles, and a turn-over of 8 milliard roubles), the Union and Wholesale of Swiss Distributive Societies (with 362, 789 members, six propagandist journals, and an annual turn-over of more than 330 million francs), the French National Federation of Consumers' Societies (with 2,291 society members, 1,360,713 individual members, and an annual turn-over of 153,697,608 francs), the Union and Wholesale of Swiss Distributive Co-operative Societies, the Co-operative Unions and Wholesales of Norway and Sweden fall under the first category comprising combined Trading and Propagandist Federations.

In the second category come the movements in which the Trading Federation or Co-operative Wholesale forms a legally distinct entity from the Advisory and Propagandist Union as in the case of the Co-operative Union of the United Kingdom, the Irish, English and Scottish Agricultural Organization Societies, the Agricultural Co-operative Union of France, the various Unions in Germany, the National League of Co-operative Societies in Italy, the Australian Union of Co-operative Societies, the Bombay Central Co-operative Institute, the Madras Provincial Union, and the Bengal Co-operative Organization Society, etc.

In the third category come the purely Trading Federations or Co-operative Wholesales, such as the Wholesale of German Distributive Co-operative Societies, the Australian and Belgian Wholesale Societies, the United Grain-growers' Society of Canada, the Danish Co-operative Egg Export Society, Cement Works, Manure Society, Coal Supply Society, Co-operative Dairy Societies, Joint Purchase and Engineering Works, the Union and Wholesale of Danish Distributive Societies, the California Fruit-growers' Exchange, the French Co-operative Wholesale Society, the English and

Scottish Co-operative Wholesale Societies, the English and Irish Agricultural Wholesale Societies, the National Union of Italian Worker's Co-operative Societies, the Italian Federation of Agricultural Supply Co-operative Societies, the Italian Wholesale Co-operative Society, the Dutch Union of Distributive Societies, the Central Supply Association of Dutch Agricultural Societies, etc.

In a book like this it is not possible to give a detailed account of the above organizations for which reference must be made to the *International Review of Agricultural Economics*, the *International Co-operative Bulletin*, the *International Labor Directory* (Part VII) and the *People's Year Book*. We can only attempt to give brief descriptions of typical societies falling under each of the three groups *viz.* the Dual-function Type, the Wholesale Type and the Propagandist Type.

As regards the centralised Dual-Function Federations combining propagandist and trading functions, it will suffice if we select the Swiss Union for the purpose of studying the type. In the Union of Swiss Consumers' Societies the three links in the chain of co-operative government are the Administrative Committee or Executive, the Supervisory Council or Board of Control, and the Congress or legislative mandatory organ. As the congress elects the supervisory council, so the supervisory council elects the administrative committee or executive. The supervisory council is composed of 21 members, who are elected for three years at the rate of one-third of their number each year. The council's powers include, besides the election of the administrative board and the supervision and control thereof, the appointment of committees and of the higher-salaried members of the staff, the determination of the scale of salaries, the ratification of

labour contracts, the purchase of property, the determination of the date and order of congresses, and so forth. The council also fixes its own scale of indemnity, and holds its meetings quarterly, its functions being delegated in the interim to a committee of five of its members (resident in the Union head-quarter's area). This committee of five, termed the Bureau du Conseil, is the standing or acting committee of control.

Subordinate to the Committee of Control is the Administrative Committee or Executive Board, consisting of from three to five members, who, in the capacity of a Board of Directors are collectively responsible for conducting the operations of the Union and carrying on its affairs. The affairs of the Union are carried on in three departments, each department having at its head one to three members of the administrative committee. The first department is that of organisation and accountancy, and comprises the sub-departments of banking, accountancy, insurance, printing, construction, and agriculture. The second department is that of the secretaryship and propaganda, and includes the editorial departments of the various periodicals issued by the Union. The third department is that of wholesale enterprise (commercial and manufacturing). From the following list the whole hierarchy of functions and functionaries may be seen at a glance :—

- (1) The co-operative congress.
- (2) The supervisory council ; the acting council.
- (3) The administrative committee or executive.
- (4) The three departments : each with members of the administrative committee at its head, and each with its chancellerie and chief ; and the Wholesale with two or three chiefs in addition.
- (5) Sub-departments and sub-chiefs.

From the above particulars it will be seen that the Swiss Union presents itself as a type of organisation in which the feature of co-ordination stands out in bold relief. Coming next to the movements in which the Wholesale Society constitutes a separate entity it will be as well to have a glance at the organisation of the Co-operative Union of the United Kingdom which is a pure-type federation of co-operative societies in the United Kingdom, conforming to the provisions of the Industrial and Provident Societies Acts. According to its Rules "the objects of the Union are to carry on the trades and businesses of accountants, booksellers, commercial and general advisers, publishers, and arbiters in matters of dispute arising between societies which cannot be settled locally, and of propagating principles and ideas, and the organising of co-operative work in all its branches, whether such work be in connection with industries, trades, or business, or for the promotion of education and other objects and purposes of a similar character."

Every member of the Union must hold one transferable share of the nominal value of five shillings which does not carry interest or dividend. Every society must, so long as it continues a member of the Union, contribute annually to its support as follows—

- (a) In the case of distributive or retail societies, the sum of $1\frac{1}{4}$ d. per member ;
- (b) In the case of other societies (federated, productive, etc.) such rates as may be decided upon by the United Board.

For purposes of co-operative organisation the United Kingdom is divided into seven geographical areas, called sections. Each of these sections has its own Sectional Board, elected annually by the societies within the area

covered by the respective sections in such manner as they themselves determine. The seven Sectional Boards together constitute the Central Board which is the Governing body of the Union. Each of the Sectional Boards in England and Scotland and the Executive Committee in Ireland, is responsible for the guidance of the societies in its own area and meets monthly. The Central Board meets as a whole only twice a year—once immediately after election, to decide its general policy for the year ; and once just before the congress, to consider its report to the congress. But a large amount of executive work is carried on in the interval between the congress meetings. This is delegated to the United Board and to various Committees. The United Board consists of representatives from the Sectional Boards ; it meets three times in each year, and, subject to the Congress, is the executive of the Union. The following Committees are also appointed—the Office Committee, the Finance Sub-Committee, the Educational Committee, the Productive Committee, the Joint Parliamentary Committee, the Joint Committee of Trade-Unionists and Co operators, the Exhibitions Committee, the Joint Propaganda Committee and the International and Foreign Inquiry Committee.

The Irish, English and Scotch Agricultural Organization Societies stand in practically the same relation to the agricultural societies in Ireland, England or Scotland as the Co-operative Union to the industrial ones. As a type of this class of Federations let us examine the constitution and functions of the Irish Agricultural Organization Society. The I.A.O.S. was inaugurated in 1894 by the Rt. Hon. Sir Horace Plunkett—the pioneer of the Irish co-operative movement—Mr. Vansittart Neale and others of the English Co-operative Union. The Society has had to carry on its work amidst great and varied difficulties, but gradually it has established itself as a great agency for the material advance-

ment of the Irish people. It has no trading functions whatever; it seeks merely to organise, educate and help co-operators—the Trading functions being left to the separate trading Federation known as the Irish Agricultural Wholesale Society, Ltd. It sends out organizers to help in the formation of new societies, it maintains a staff of chartered accountants who carry out at reasonable fees and with great thoroughness the annual audits of all societies which apply for their services.

The management of the Federation is centralised in Dublin, but an organizer is assigned to each province and is assisted by a provincial committee with advisory powers. The country is also divided into conference districts for the purpose of calling meetings of delegates at convenient centres to discuss questions of general importance. In addition to the provincial Organizers, who have a general knowledge of all forms of co-operation both as regards butter-making and machinery matters, there are others who are qualified to overhaul agricultural machinery and to discuss technical aspects of farming.

Furthermore, the Irish Agricultural Organization Society acts for the organized farmers in the same way as a trade union acts for its members, voicing their views on all questions of policy which may arise, whether in Parliament, in the Press or elsewhere. One of the most important parts of this work consists in protecting the interests of the Societies in all legal matters.

In return for these services the Societies are bound to pay an affiliation fee each year, calculated at the rate of 10s. for each £1,000 of turn-over. They are further asked to make a special contribution, collected from individual members, at the rate of $\frac{1}{2}$ d. in the £ on their dealings with the Society in order to qualify for full service. The Irish Agri-

cultural Organization Society receives an annual grant from the Development Commissioners based on the amount of the e payments, and is thereby rendered liable to a certain amount of Government control, the chief restriction on its activities being that it is prohibited from organizing societies for other than purely agricultural purposes. The number of societies affiliated to the I.A.O.S. is 1,028, with a membership of 135,669, farmers and a total turn-over of more than £ 11,000,000: among these Societies are 435 creameries whose turn-over exceeds £6,200,000

We shall give here another instance of a purely Propagandist Union—the "Pellervo" Society—the origin and fountain of all co-operative activities in Finland. It was founded in 1899 after a study of the methods which Sir Horace Plunkett had applied through the Irish Agricultural Organization Society. The founders of the Pellervo Society followed closely the programme of the Irish institution. It took as its object—"to promote the economic advancement of the people by means of Co-operation and to be the connecting link of all Co-operative undertakings existing in the country." It has endeavoured to spread the knowledge of the beneficent power of Co-operation, to help in the starting of different Co-operative enterprises—first of all, farmers' societies, livestock societies, and insurance societies, and later on, co-operative societies of different kinds, such as co-operative dairies, rural banks, stores, and so forth; it instructs the officials of Co-operative Societies in the principles of management and book-keeping, it assists Co-operative Societies by auditing their accounts and by settling disputes, and further helps them to work together for their mutual benefit; finally, it acts as the representative of Finnish Co-operation to the outside public, watches over its interests, and defends it against the attacks of its adversaries. Its other functions include among others—the dissemination of literature for the ins-

truction of the local societies and their members, the promotion of Federations for the purposes of trade, the drafting of rules suitable to the various operations in which Societies engage, negotiations with the Government on matters of law or administration affecting the co-operative movement*

Lastly, we come to the third type *vis.* the purely trading federations or Co-operative Wholesale Societies. In the chapter on Co-operative Stores, we have already described the multifarious activities of the English and Scottish Co-operative Wholesales, and, at the beginning of this chapter, we have given the names of the different wholesale organizations in various countries. It is beyond the scope of this book to enter into a detailed study of those organizations. We propose, therefore, to give some details about another typical co-operative wholesale society *vis.* the "Hangya" Union of Consumers' Societies or Co-operative Wholesale Society at Budapest founded in 1899 by Count Alexander Karolyi. It is a distributing and controlling centre to co-operative societies affiliated thereto. These societies within the territory left to Hungary by the Trianon Treaty number about 1,900. The aim of the Hangya is to supply consumers' societies with household utensils, foodstuffs, clothing, agricultural implements etc. For the benefit of the affiliated societies exhibitions of large stocks of goods are organized at the district head-quarters so that societies of each district can be supplied with foodstuffs and agricultural articles with greater facility. The wholesale, as such, is not engaged in production, but in order to supply its members at first hand with manufactured goods it has founded a separate society, the "Hangya" Industry Company, Ltd. By so doing, the Co-operators were freed from the risks,

* For details, regarding the Pellervo Society see Dr. Gebhard's "Co-operation in Finland" and an article in the May 1920 issue of the *International Review of Agricultural Economics*.

connected with industrial undertakings and the advantages of decentralisation were secured, while at the same time, the interests of the consumers remained fully safeguarded, the control over the Company being entirely in the hands of the "Hangya" wholesale.

The "Hangya Industry" is a Joint-stock Company for the wholesale production of goods with a foundation capital of ten million crowns. The larger part of the shares are taken by the Hangya, whilst the others are subscribed by the co-operative societies of the districts and their members. The Hangya Industry Company, founded only in 1916, has developed on a large scale, and at present is carrying on production in the following undertakings of its own—two steam-mills, a soap factory, chemical works, a brush and broom factory, a sweetmeat factory, a rope works, a match factory, a cutlery works, a distillery and wine cellars, all in Budapest. Besides its own undertakings, it also participates in several other industrial enterprises, such as an important leaven and spirit factory, and a great pig fattening establishment, besides a red-pepper mill and a medicinal herbs collecting establishment. The plants of the society are of a modern technical construction, and their productive capacity is greatly in excess of the needs of the "Hangya's" members, so that as soon as it becomes possible to carry on production on a normal scale, large quantities will be available for the general consumption of the country and even for exportation. Hungary, being an essentially agricultural country, the bulk of its exports consists of agricultural products. The "Hangya" has a separate organ, the "Futura" Hungarian Co-operative Unions Trading Company, Ltd., which it has founded in connection with the National Central Co-operative Society of Credit, and which, by way of the rural Co-operative societies, collects the products of both organizations and partly puts these at the disposal of home consump-

tion, and partly exports them into foreign countries. The Company, in which the Hungarian Government has also taken an interest, was founded only in 1919 ; but in the first year of its existence, it has achieved a turn-over of approximately 4 milliards of Hungarian crowns.*

International Co-operation.—Look where we will, in Europe or in America, we find that co-operation is so far developed in the various countries that the members regard the movement as a pathway leading to a better human society : it now awaits its final stage of development into an international co-operative organisation. The term "International Co-operation" has a special significance. "It postulates the gigantic movement," says Mr. A. J. May, Secretary of the International Co-operative Alliance, "among the workers of the world, which, beginning in 1844 with twenty-eight of the unemployed in Lancashire, has grown like a mustard seed, until it has practically covered the earth. It stands for the organised efforts of 25 million co-operators to effect their economic freedom, social emancipation, and the establishment of society upon a basis of brotherhood instead of that of competition of individuals struggling for the mastery."

To further the cause of International Co-operation the International Co-operative Alliance was established in 1895. It is an International Union embracing the Co-operative Unions in Germany, Argentine, America, Austria, Belgium, Bulgaria, Canada, Denmark, Spain, Esthonia, United States, Finland, France, Georgia, Great Britain, Hungary, Irish Free State, Italy, Latvia, Lithuania, Norway, Netherlands, Poland, Roumania, Russia, Servia, Sweden, Switzerland, Czechoslovakia, and Ukraine. It was established for the promotion of co-operative principles and practice on an interna-

* *From the Peoples' Year Book, 1922.*

tional scale. Its official organ is the *International Co-operative Bulletin*. It has two auxiliary bodies—the International Committee of the Co-operative Wholesale Societies and the International Co-operative Women's Committee. As a result of the activities of the I. C. A. the establishment of an International Co-operative Wholesale Society and an International Co-operative Bank is within sight. Viscount Grey, speaking recently on the work of the League of Nations and the lessons of the war, urged International Co-operation as his supreme hope and declared that we must "learn or perish." So co operators must learn that the future of their movement depends more than ever upon a vigorous development of International Co operation as they understand and practise it. The needs of the hour demand this as a natural progression towards the goal we have set before us and as part of the inevitable reconstruction of the world civilisation.

The position of India in the scheme of International Co-operation :—In spite of what must be called the phenomenal development of co operation in India, she is still far behind other countries in the march of co-operative progress. Ours is still a one-sided movement : we have but built one ante-room—the credit structure—in the great co o, erative edifice, and we have yet to lay even the foundations of the other structures before the edifice is complete and can take its place in symmetry and harmony with the stately co-operative edifices of other countries. We must have the Provincial Co operative Banks federated into an All-India Co-operative Bank ; we must have our Provincial Co-operative Agricultural Wholesales and federate them into an all-India Agricultural Wholesale Society ; we must have our Provincial Co-operative Industrial Unions and federate them into an all-India Industrial Co-operative Union ; we must have our Provincial Consumer's Wholesales and federate them into an all-India Consumer's Wholesale Society ; we must have our Provincial

Co-operative Propagandist Unions and federate them into an all-India Union ; when we shall have these Federal Co-operative Organisations we shall carry the federative principle further and organise a truly representative all-India Co-operative Congress affiliated to that great International organisation—the International Co-operative Alliance. But it aches one's heart to contemplate the distance we have yet to travel before we reach the goal.

We have no trading federation in any province of India but have got so far only Provincial Co-operative Banks and Propagandist Unions—but there are yet some provinces which have got not even such apex banks or unions. We have already described the constitution and working of the Provincial Banks, and we shall close this chapter with a brief description of the Provincial Co-operative Unions.

The Bengal Co-operative Organisation Society started work early in 1918: it consists of Patrons, Life-members, Ordinary members, Student members and affiliated societies. It publishes two journals—the "*Bengal, Bihar & Orissa Co-operative Journal*" and the "*Bhandar*"—the former being an English quarterly, and the latter a vernacular monthly. It has established a well-equipped Central Co-operative Library—the "Buchan Memorial Library"—in Calcutta where it is possible to get the co-operative literature of almost every country in the world, including journals, magazines, blue-books, reports, etc. It holds public lectures—in English and Bengali, it publishes leaflets, pamphlets and books in English and in the vernacular and distributes them widely throughout the province. It holds co-operative conferences in district and sub-divisional headquarters and carries on rural propaganda through the agency of its travelling lecturer who delivers lectures illustrated by magic lantern slides. It awards prizes, medals and other rewards for the most efficient work in co-operation: these are generally granted to

secretaries of rural co-operative societies and thus they act as a stimulus to honest and efficient work. It has become a bureau of advice and information and enquiries come not only from all parts of Bengal, but from all parts of India. It carries on propaganda work amongst the College Students in Calcutta and outside so as to interest them in co-operation and to start urban co-operative stores in Colleges. It is engaged in promoting co-operative housing schemes in Calcutta, and funds permitting, it proposes to organise training classes for the benefit of secretaries, auditors and managers of co-operative societies, and a permanent co-operative exhibition depicting the progress and achievements of Co-operation in Bengal. The Society gets an annual subvention of Rs 2980 from the Government of Bengal and its office and library are located in the office of the Registrar of Co-operative Societies, Bengal.

The B. C. O. Society—which is now in the fifth year of its existence—has done much in popularising the co-operative movement in Bengal amongst all classes of people. But it can do more, if it is brought into more intimate relations with the mofussil societies. It cannot be a thriving, living, expanding organism unless and until it identifies itself more intimately with the societies themselves; the B. C. O. Society must be converted into an All-Bengal Union of Co-operative Societies, if it is to live, grow and contribute its quota to the development of the movement. At present individuals who are not members of co-operative societies have a predominating voice in the management of its affairs; some societies are *in* it but are not *of* it. The time has come so to alter the constitution of the Society as to make it fully, and if possible—entirely, representative of the co-operative interests of the Province. Central Banks and societies should be the ordinary members of the Bengal Co-operative Union (the new name which we should like to substitute for the

more cumbersome name of the "Bengal Co-operative Organisation Society"); individuals should come in as extraordinary members. With its altered constitution and with more assured finances from the societies themselves the B. C. O. Society or the Bengal Co-operative Union will be better able to carry on the various kinds of propaganda work in a more diversified form in all parts of the Presidency.

The Bombay Central Co-operative Institute does the same kind of work in that Presidency as is done by the British Co-operative Union in England. The following are the aims and objects of the Institute as stated in its bye-laws :—The objects of the Institute are to develop the co-operative movement in India by all means in its power, to serve as a centre for every sort of co-operative activity, to promote the study of all questions connected with co-operation and to ascertain and represent the views of co-operators on any questions of general public importance affecting the movement.

In order to expand the scope of its work the Institute has established Branches at the following centres :—(1) Poona, (2) Broach, (3) Dhurwar, (4) Kolaba and (5) Bombay. Co-operative societies and individuals in Native States may also take part in the work of the Institute by becoming members of the Branch within whose territorial jurisdiction the state lies.

At present the work of the Institute is carried on through the Head Office at Bombay and through the 5 Branches mentioned above. To carry the work further afield into the villages themselves, it is proposed to start Taluka Branches. With a view to co-ordinate the work of the Taluka Branches it is also proposed to start District Co-operative Councils.

The Standing Committee appointed by the Board of the Institute deliberates and expresses opinion on various important questions of policy and propaganda arising in the

movement and also those referred to it by the Registrar of Co-operative Societies in the Presidency ; questions requiring consideration by the larger body of co-operators being, however, placed before the Provincial Conference. The following details are intended to give an idea of the various branches of work done by the Institute.

Legal Advice : A Committee of Legal Advice has been appointed for giving advice to societies on legal points arising in the course of its transactions. Opinions were given from time to time on several questions referred to it.

Training Classes : The Institute holds the following classes for the benefit of the co-operative workers in particular and of the public in general :—

- (1) *Elementary Training Course* in vernacular in villages.
- (2) *Junior Secretaries Training Class* in vernacular in different districts.
- (3) *Senior Secretaries Training Class* in vernacular at the Divisional Centres.
- (4) *Training Class for Honorary Organisers* in vernacular at the Divisional Centres.
- (5) *English Training Classes* for College students and the public in Bombay.
- (6) *Bank Managers' Training Class*—in English—in Bombay and in vernacular at the divisional centres.
- (7) *Honorary Organisers' Class* in English in Bombay.
- (8) *Continuation Classes in Co-operation* in English in Bombay.

Conferences : The Institute convenes the Provincial Co-operative Conference and the Branches convene the Divisional Conferences at various centres. Steps are being taken to hold Taluka Conferences, one at least every year in each District, and a Divisional Conference every year by turn in

each District. The proceedings of both the Taluka and Divisional Conferences are conducted in the vernacular language.

Lectures and Magic Lantern Shows : The Institute also arranges lectures both in English and vernacular languages at various centres both for propaganda and instruction. With a view to illustrate lectures by magic lantern, the Institute has taken in hand the preparation of sets of slides on various subjects. Two sets are now ready, and when a few more are prepared they will be sent round to various places.

Magazines : The following Magazines are published by the Institute :—

- (1) *The Bombay Co-operative Quarterly* in English.
- (2) *The Sahakari Patrika* in Gujarati.
- (3) *The Sahakari Mitra* in Marathi.
- (4) *The Karnatak Sahakari Mitra* in Kanarese.

Leaflets : The Institute also publishes leaflets and hand bills on various co-operative topics.

Consumers' and Producers' Societies : The Institute also carries on propagandist work in other Branches of co-operative activities such as Consumers' and Producers' Co-operation,

Co-operative Housing : The Institute carries on an extensive propaganda in Co-operative Housing and has published 45 leaflets on different aspects of housing and has been instrumental in bringing about several housing societies in Bombay and other places.

Library and Reading Room : The Institute maintains a Library and a Reading Room of co-operative literature. For the present these are maintained at the Head-quarters of the Institute at Bombay and efforts are being projected to establish them at various centres.

Night Classes : With a view to give some elementary education to the illiteratemembers of societies and committees

in backward villages about 40 night classes are being maintained with the help of the fund generously furnished by the late Sir Vithaldas D. Thackersey. For a further expansion of this work, it is desirable that societies in the neighbourhood of each other should join hands in starting such schools on their own initiative. The Institute will, however, give all necessary guidance in the matter.

The Institute, as has been shown above, not merely carries on the work of co-operative education, propaganda and enquiry, but also takes steps to develop the co-operative movement in all possible directions, to focus every form of co-operative endeavour, and to act as a representative of independent co-operative opinion on all questions affecting the movement.* It is, in fact, the most active non-official co-operative propagandist body in the whole of India.

The Madras Provincial Co-operative Union similarly helps in propagandist work by organizing conferences and publishing co-operative journals in English (*the Madras Bulletin of Co-operation*), in Tamil and in Telegu—the two principal vernaculars of the Presidency : in that Presidency, district Councils of Supervision—local federations of unions of societies—also assist in the work of propaganda and training.

The Bihar & Orissa Co-operative Federation and the C. P. Berar Co-operative Federation, the membership of both of which consists solely of co-operative societies, have for their objects—(a) the supervision, audit and control for all co-operative societies enrolled as members ; (b) the promotion of agricultural, industrial and other special forms of co-operation ; (c) the expansion and improvement of primary education, and the promotion of the moral and material progress of its affiliated societies and (d) the promotion of

* From Leaflet no. 12 of the Bombay Central Co-operative Institute.

unity and uniformity among all co-operators in the province. The Federations conduct audit, exercises administrative control, carry on propaganda, arrange for the training of workers, and organize annual congress of delegates elected by affiliated societies in each subdivision of a district.

In Burma there are the District Co-operative and Agricultural Associations (*vide p. 233 ante*) which, in the last few years, have had a large share in propagandist and educative efforts. It is now proposed to federate the district associations into a Provincial Union for the co-ordination of efforts. A Provincial Union has been started in the Punjab for conducting audit and carrying on propaganda, and this is expected in due course to develop into a regular Federation. Lastly co-operators in the United Provinces, and Assam are taking steps for starting either a federation or an organization society for propaganda, and educative purposes.

When all the Indian provinces will have their Co-operative Unions of the "pure" type—true federations of societies—it will be possible to realise the dream of forming an All-India Co-operative Union. Such an All-India Union and other All-India co-operative organizations are essential pre-requisites for India's participation in international co-operative activities.

CHAPTER XIX.

CO-OPERATIVE EDUCATION.

So far as the number of co-operative societies, their membership and the amount of their working capital are concerned, the progress of co-operation in India may be considered to be somewhat satisfactory. But if we look for sound efficiency of management of societies, or a proper appreciation of co-operative principles by members, or the civic qualities of the members, we have to pronounce a different verdict about Indian co-operative progress. Here we are face to face with the problem of Education and its relation to co-operative progress. Education in connection with co-operative activities may mean any one of the following things—education by co-operation, education for co-operation or the general education of co-operators in various subjects. If we examine the activities of Western co-operators we find that all three of these policies have been made the subject of systematic experiment, but in India only spasmodic efforts have been made here and there and no definite plan or policy has been followed.

Education by co-operation :—A co-operative society is distinguished from other forms of association by the fact that it promotes not merely the economic interests of its members, but it also elevates their moral nature and uplifts them to a higher plane of thinking and living. “Each for all, and all for each”—that is the guiding principle of co-operative societies ; members learn to subordinate individual interests to the interests of the whole ; they learn the great lesson—Union is strength ; they imbibe the first lessons of Self-Government,

for the co-operative society is a moral democracy where all have equal rights and equal opportunities ; they recognise the benefits of organisation, and become self-reliant and mutually trustful ; and, finally, they develop the business and administrative capacity latent in many of them who have never had occasion to use it. Co-operation is thus a great uplifting force, and the co-operative society a school of active virtue. Students of Indian co-operation need only read the various annual reports of provincial Registrars to test the truth of the above statements. There is thus no doubt that the co-operative societies have been a great educational factor which have been largely instrumental in broadening the moral outlook of the members, and in giving them a new interest in life.

Education for co-operation :—Now we come to the more technical aspect of Co-operative Education *viz.*, Education for Co-operation. This may be studied under two heads—(a) Co-operative Education in the strict sense (b) Co-operative Propaganda. By the former we mean all that education which is given by co-operative societies, or their federations or by other authorised bodies to members, secretaries, managers, officers of the Department (Supervisors, Auditors, Inspectors etc.) with a view to fitting them to carry on as well as possible their respective duties and functions, to understand and observe the law and the rules, and to appreciate and foster the ideals of the movement. By the latter we mean (1) the publication of printed matter of all kinds e.g. leaflets, pamphlets, books, reports, newspapers etc., (2) the giving of lectures by specialists or by travelling agents (3) the institution of libraries and reading rooms, (4) the holding of conferences, (5) the distribution of medals and prizes to co-operators, (6) holding co-operative exhibitions etc.

So long ago as 1879 Professor Stuart had laid stress upon

the first kind of co-operative education at the Gloucester Congress ; He said :—

“If the mass of your members are not sufficiently instructed in economic science, in the facts of commerce, in the state of this and other countries, in the history of trade, in general knowledge, and in particular knowledge of what you aim at and how you seek it—I say, if the mass of your members are not sufficiently interested in these things, there arises a real danger to the Co-operative Movement. Your members become a hindrance, and your possessions become a peril, and your productive endeavour will continue to be the failure which they too often hitherto have been”.

Professor Stuart realised the fundamentals of the movement and warned the co-operators of England in time. The Co-operative movement was a “democratic movement, if ever there was one”. Such a movement could not depend, as he fully realised, “on the good sense of the few. It must be able to rely on the sound common-sense and knowledge of the mass of its members.” So Professor Stuart explains—“First you must educate your members in your own principles, and in those of economic science, and in the history of endeavours like your own ; and in the second place, you must educate them generally. Education is desirable for all mankind ; it is the life's necessity for Co-operation”.

It was the Rochdale Pioneers who realised this and began to set apart some of their profits for educational work and established classes in literary and scientific subjects. The demand for their facilities was so great and it was considered to be so essentially a duty of the public that “public authorities took over much of the work which co-operative societies and others had been doing”. Then the co-operative

societies handed over that part of the educational work to the authorities, and concerned themselves with "the duties of training men and women as units in the Co-operative Army, able to work intelligently, individually and in groups, for the realisation of co-operative ideals".

"The Co operative Educational Programme for the Congress year 1915-1916" defines the objects of co operative education as "the formation of co-operative character and opinions by teaching the history, theory and principles of the movement, with Economics, and Industrial and Constitutional History in so far as they have a bearing on Co-operation and, secondarily, though not necessarily of less import, the training of men and women to take part in industrial and social reforms and civic life generally".

With a view to attain the above objects of co-operative education, a Co-operative College has been established at Holyoake House, Manchester. The College is under the control of the Co-operative Union through its Central Education Committee (the Co-operative Union being a federation of co-operative societies in the United Kingdom, undertaking educational, organising and advisory work on their behalf). The objects of the Manchester Co-operative College are thus set forth in the Prospectus —

"To complete the scheme of co-operative education by providing a centre for higher education in the specialised subjects required for the full equipment of the co-operator, and the further development of efficiency in the co-operative movement.

"To provide a centre for the cultivation of the co-operative spirit, the generation of enthusiasm for the application of co-operative principles, and the inspiring of students for service in the cause of co operation ; to assist in all possible ways in the diffusion of a knowledge of co-operative principles

and practice, and the cultivation of a healthy co-operative opinion; and to co-operate with, and help, all existing organisations having these objects.

"To undertake investigations and research that are calculated to aid the general development and progress of co-operation, and stimulate the application of co-operative principles in the solution of social problems."

The college is open to both men and women, but no student of less than 17 years of age is admitted except under special circumstances. The session or college year is from October to June, and the fee for a full course of instruction on the various subjects, amounting to about 15 hours' teaching per week, is 12 guineas. Shorter periods and courses for special subjects are provided for those unable to take the full course.

We need not here detail the curriculum of the college. It is sufficient to say that it covers most, if not all, of the special subjects (see *Appendix II*) necessary to achieve the objects of co-operative education as defined above. It may, however, be noted that the scheme includes "Tuition by correspondence" and "Extension lectures" by which courses of study are taken to the localities of societies desiring them. Two scholarships of £20 each, and two of £40 each are tenable at the college for the promotion of research and the encouragement of investigation of subjects of co-operative importance.

Now this work of the co-operative college, so briefly summarised here, may be thought to be only of importance to British co-operators. Such is, however, not the case, as students are received from the uttermost ends of the earth. As a writer in the "*International Co-operative Bulletin*" says—"During recent months young co operative enthusiasts from India, Austria, Finland and Japan have assuaged their

thirst for co-operative knowledge, and gained an insight into the romance of our movement, by studying at Holyoake House. Some have taken a regular course, and others have been compelled to be content with a fleeting visit, reading as they ran, gathering the flowers and fragrance of our growth, scenting the peaceful evolution promoted by the pioneers and now gradually encompassing the earth".

A similar—but more ambitious—scheme has been launched in Russia. In pursuance of a Resolution of the all-Russian Co operative Congress a Co-operative University was opened on the 17th September, 1918, in Moscow at the premises of the Moscow Union of Co operative Credit Societies. The University is intended to provide highly skilled instructors for co operative works, properly trained directors for the boards of co-operative societies, editors of leading co-operative reviews, etc. The first section to be opened was the economic co-operative section, covering the teaching of economic subjects relating to co-operation, its theory, methods and organisation in general; the second was the commercial managers section; and the third included courses and seminaries for the study of co-operative production. Special courses of lectures on co operative statistics, banking and book-keeping, co-operative housing, etc., have also been delivered. Every co-operative organisation has to contribute a percentage from its turn-over for the maintenance and development of this important educational establishment. As the financial position of the University is secure, its promoters hope to be able to develop it into a real training ground on the basis of co-operation for highly skilled workers in the field of the economic and social reconstruction of Russia.

The French Government have recently taken the important step of founding a Chair of Co-operation at the famous

College of France and of appointing Prof. Charles Gide—the *doyen* of French co-operators and the father of the co-operative movement in France—to that chair. This new institution, mainly brought about by the efforts of the National Federation of Co-operative Societies of France, is largely supported by co-operative funds voted with practical unanimity at the Paris Congress of 1919 and at a cost of 20,000 francs. French co-operators have eagerly sought the opportunity of establishing this “chair,” because the College of France is an institution, not only of national standing, but one in which the Professors have complete liberty to arrange the courses of instruction and to follow the bent of their own scientific inclinations in research. The realisation of their purpose provides an opportunity for establishing co-operation in the highest educational circles as a subject of scientific investigation, and of extending its influence into thought hitherto untouched by co-operative propaganda.

In Germany, besides the Berlin University Chair of Co-operation held by Dr. August Muller, classes for co-operative education are held at selected centres. These classes cover various aspects of the movement, as suited to members and officials, the duration of the course being proportioned to the use which the learner proposes to make of his knowledge. The extent to which co-operative education has spread in Germany is illustrated by the number of books on co-operative matters—often discussing in detail comparatively small points of theory or practice—which have been written as theses, by men competing for degrees in the leading Universities. Such theses were unheard of by the learned men of English Universities until within the last four or five years; but they have been common in Germany for twenty years or more. The general standard of education, at any rate, among those who direct the affairs of co-operative societies in Germany, seems to be considerably higher than is the case in most other

countries, and while much of the credit of this is no doubt due to the efficiency of the general system of education, some at least must be ascribed to the work of the federations.

These examples from the West have their lessons for us in Bengal and in India. The latest statistics show that there are in India 47,503 co-operative societies of all kinds with a total membership of 1,752,904 and a total working capital of 264 millions of rupees. It will at once be evident that the co-operative movement has taken firm root in the country and that the interests of a vast mass of the population of this country are involved in the success and stability of that movement. Now that success and that stability depend, mainly, if not solely, on a widely diffused co-operative education taken in both its narrower and broader aspects. Let us examine what has so far been done in the various provinces for co-operative education in the narrower sense.

Some tentative efforts in the direction of the training of workers and office-bearers have been made in several provinces. In Bombay, the Central Co-operative Institute with the help of the Co-operative Department arranges short courses of training for secretaries and departmental officers. In other provinces the respective Departments arrange for a course of training for probationers with the help of their own officers. No University in India has yet thought fit to include Co-operation as a regular separate course of study, though some of them, specially the University of Calcutta, have included it as one of the subsidiary subjects in the Economics courses for the degree Examinations. No Chair of Co-operation has yet been thought of in connection with any of the old or new Indian Universities, though it is recognised by all that the co-operative movement is the most potent economic movement in India to-day. There are no strong Provincial Co-operative Unions, nor any All-India Co-operative body which may finance and control an all-India Co-operative College or

University. The examples from the West, which we have described above, show that Western Co-operators have realised—what we have not yet realised—that co-operation is an important subject of study and research which should not be neglected by any seat of learning. The ever-widening progress of co-operation, the multifarious applications of the principles of co-operation to the solution of diverse economic problems make it imperative that the subject should be studied by the best intellects of the country for the furtherance of its own economic interests. Moreover, the institution of a Co-operative College, or a Chair of Co-operation filled and manned by experts means enormous strength to the movement. A co-operative society, be it a primary, or a central bank, or a trading society, or a store or a federation, must depend for its success on efficient management. This efficient management is only possible if the men at the helm have been properly trained in the theory and practice of co-operation. In these days when the cry for vocational education is heard on all sides, the need for such recognised centres of co-operative training and research is all the greater, for the field of employment to our young men offered by co-operative societies is widening year by year; and as new applications of the co-operative principle are made, as co-operative stores, housing societies, sale societies, cattle-breeding societies, market-gardening societies, industrial societies, wholesale societies, federations are started in increasing numbers, new talents will be necessary and must be forthcoming. Indeed the want of such centres of co-operative study and research is largely responsible for the one-sided progress of co-operation in India. From these centres will radiate new ideas, new visions will arise, and new fields will open up. We plead, firstly, for an all-India Co-operative College or University, whatever you may call it, situated in a central place like Allahabad. This College should be financed by all co-operative institutions in

India and by the Provincial and Imperial Governments. It should make arrangements for both instruction and research in co-operation. It should have the most complete and up-to-date library of co-operative and general and economic literature, Indian and foreign. It should publish a monthly Journal of Co-operation (superseding all provincial journals) containing news from all provinces, the results of the researches of the Professors, a record of co-operative activities abroad, notices of all important co-operative publications, etc. It should have an Editorial Board with a paid Chief Editor and Manager. Like the International Co-operative Bulletin and the Review of Agricultural Economics, the all-India Journal should be published in as many languages as is desirable and possible for circulation in the several provinces.

The College should be a residential one and should have a co-operative store, a co-operative dairy, a co-operative laundry, etc., attached to it, so that the students themselves might practise co-operation in as many directions as possible. The instruction offered by the College should be in different grades suitable to different classes of students. The College should, moreover, have a Correspondence Section which should arrange for correspondence courses of instruction for those who cannot afford to come to Allahabad.

But such an all-India College of Co-operation can only arise out of the deliberations of an all-India Congress of Co-operators who alone can lay its foundations on solid finance. For this and for other purposes it is very desirable to organise at an early date an all-India Co-operative Congress.

Before this ideal is realised, however, it is within the competence of the various Local Governments, we mean, the Ministers for Co-operation and Education—to found Chairs of Co-operation in the various Universities of India. The founding of a Chair of Co-operation means so much for the

sound, efficient, and many-sided development of co-operation in the provinces that it needs no special argument from us. Private munificence and State contributions should be able to create an endowment of—say 3 or 4 lakhs of rupees—for founding such a Chair of Co-operation. Moreover, co-operative education must be spread among all classes of the people ; from the primary school up to the University stage, co-operation must form a compulsory subject of study. Authorities of every secondary school and of every college should encourage and actively participate in the formation of students' co-operative stores managed by students and teachers for their common benefit. Students of Economics in colleges should be accompanied by professors to visit centres of co-operative activity. In these various ways, and through these diverse channels must we spread co-operative education, if we are to reap the full benefit of this great new movement and equip ourselves for taking our proper part in the growing international co-operative commonwealth. What democracy is in the field of politics, co-operation is in that of economics. If Responsible Government is to be a success it must be based on sound economic foundations : the brick and mortar of co-operation will build those foundations strong and stable. The successful development of co-operation can alone ensure the success of responsible democratic Government. Political and economic progress must go hand in hand : and in India—the land of small holdings, small capital and small home industries—economic progress lies in eliminating the middlemen by co-operatively linking up the producer in the fields with the consumer and the exporter. The application of the co-operative principle alone can bring economic salvation to the millions of patient and toiling agriculturists of India.

But the foundation of an all-India Co-operative College or the creation of University Chairs will not alone be able to bring about the consummation of our ideals in this respect.

Here we come to the consideration of the problem of co-operative education in its more general aspects. This may be considered under two heads—(a) education of members of primary co-operative societies in the principles and methods of co-operation, and (b) propaganda amongst educated men.

The illiteracy of the general mass of our people is acknowledged by all to be a great, though not insuperable, obstacle to the proper appreciation and understanding of co-operative principles by members of primary rural societies. So long as primary education does not spread among the masses, a constant endeavour should be made to teach them co-operative principles and methods. It will not do to leave this work to the Central Banks or to the overworked Inspectors and Supervisors. It should be the duty of the Provincial Co-operative Unions already in existence or to be formed in the near future—to employ trained local men as itinerant preachers or local instructors who would carry co-operative education to the very doors of the members.

We advocate the adoption of the Comilla scheme for achieving this purpose. Rural co-operative societies should be divided into groups of 10 or 12 societies each, the societies so chosen being all adjacent to one another within a radius of 3 or 4 miles. Each such group should be placed under a Local Inspector who should usually be the local school or *Pathshala pandit* who should be paid a monthly stipend of 8 or 10 rupees (out of monthly contributions by rural societies or out of any Provincial Funds). These "Local Instructors" should first be trained by one of the "Divisional Instructors" who should be experienced and highly trained officers of the Department. They should then conduct training classes generally in the Zamindar's cutcherry house—for the secretaries and members of rural societies who can easily walk from their residence (the distance being not more than 3 or 4 miles). After this course of instruction, the Local Instruc-

tor's *role* becomes that of the "friend, philosopher and guide" of the rural societies, for he acts as a sort of head secretary for the group, always at the service of the rural secretaries in their daily work, helping them in correctly keeping the books of the society and in preparing the annual statements, assisting the societies in collecting dues from members and the Central Bank in collecting dues from the rural societies, representing the grievances of the societies to the Central Bank authorities and explaining the orders of the Central Banks to the rural societies—in short, acting as a sort of intermediary between the rural societies and the Central Banks. A bold and comprehensive scheme like this must be adopted if the tens of thousands of rural co-operators are to be imbued with the real and genuine spirit of co-operation, and if the rural co-operative credit societies are to be saved from the stigma of *mahajani* still attaching to them.

To popularise the co-operative movement, to bring the educated and the semi-educated people within the fold of co-operation, public lectures, conferences, exhibitions, distribution of propagandist pamphlets, distribution of prizes and medals, publication of journals and similar other efforts are always necessary, and we have already seen in the last chapter that central propagandist unions are being started in the several provinces of India in furtherance of these objects.

CHAPTER XX.

CO-OPERATION AND PUBLIC AID.

Privileges of Co-operative Societies—The following is a list of the special privileges conceded to Co-operative Societies registered under Act II, of 1912.

1. Recognition of Co-operative Societies as bodies corporate.

2. Free annual audit by the staff of the Registrar.

3. Prior claim over other creditors to enforce recovery of the Society's demands in certain cases.

4. Shares or interest of members not liable to attachment by a Court of Justice.

5. Copies of accounts, certified by any officer of the Society, admissible as evidence in Courts.

6. Exemption from Income Tax.

7. Exemption from Stamp Duty.

8. Exemption from fees payable under the Registration Act.

9. Co operative societies placed on the same footing in respect of facilities for the acquisition of land as companies.

10. Exclusive use of the term 'Co-operative'.

11. Remittance Transfer Receipts obtainable at par for remittance between Societies or branches of Societies.

12. Refund of money order commission on remittances by postal money orders between societies and their financing agents or wholesale purveyors.

13. (In Bombay) Exemption from the Deccan Agriculturists Relief Act except from Sections 2 and 21.

14. Postal Saving Bank facilities—

(a) Societies may open public accounts,

(d) Head and Sub-post-masters may open such accounts at once in anticipation of sanction.

(e) Societies may withdraw sums up to Rs. 3,000 from their accounts on 3 days' notice at all head-quarter post offices and on 7 days' notice from other post offices and sums up to Rs. 10,000 from all post offices on 10 days' notice.

15. (In Bombay) Takavi advances obtainable by members of Societies through their societies.

16. Deposit of strong boxes in Government Treasuries in certain provinces.

Existing Rules regarding participation of Government Servants in the Co-operative movement.—The general rules of Government regulating the conduct of its servants in relation to Co-operative Societies are fairly elastic. In general any Government Servant may take shares or make deposits in a co-operative institution except in case of (1) members of the Indian Civil Service who may only do so outside their own province and (2) members of the Provincial and Subordinate Civil Service who may do so, with special permission, but may be precluded from serving in the district in which their investment has been made. Local Governments are at liberty to modify these rules and have, in some instances, availed themselves of this power. In Burma, for instance, any Government Servant may take shares or make deposits in the Provincial Bank, and in Madras, the Central Provinces, Bengal and Bihar and Orissa, there are no restrictions on investments or deposits in Central Banks or the Provincial Bank.

Circumstances differ in different tracts, and some diversity of practice may be permitted. If provision is made to minimize undue official influence, the movement should not be deprived of the moral and financial support which Government servants give it. In Europe there are few or no restric-

tions on the dealings of Government servants with Co-operative Societies, and if precautions are taken to see that all proceedings are public and that societies are thoroughly supervised, the need for special restrictions is greatly diminished. Tested by these considerations the existing rules appear, on the whole, to be well devised.

The relation of District officers to the movement—In their Resolution of April 29th, 1904, the Government of India laid down that while the immediate charge of societies once started should devolve on the Registrar, District Officers should help in initiating the movement, and after societies had been formed, should give them their active sympathy and support. In their Resolution of 1914, again, they pointed out in some detail that while it was no part of the duty of a District Officer to intervene in the internal administration of societies, it was important that he should recognise that they constituted a new factor in the administration which could not be disregarded, and that it was his business to keep in the closest touch with them, allowing them neither to languish for want of sympathy or develop in undesirable directions through want of vigilance. A similar line was taken by the Bengal Government in a circular issued in August 1911, in which it was stated that, while the Collector should not inspect or control or personally organize societies, he should acquire knowledge of the movement and evince his willingness to help it forward, more particularly in such matters as the recruitment of Honorary Organizers. The instructions thus given as regards the general attitude of the District Officer to co-operation are in the opinion of the MacLagan Committee, clear and consistent, and they express their entire agreement with them.

Public deposits.—The shares and deposits of co-operative institutions (except the debentures of the Bombay

Central Co-operative Bank, the interest whereon has been guaranteed by the Secretary of State in Council) are not at present Trust securities. When, therefore, the investment of money belonging to the Court of Wards is limited by the law to Trust securities, it is impossible to invest such money in co-operative institutions. But the existence of such a limitation would not, it is presumed, prevent the use of Court of Wards funds for assisting societies constituted for the benefit of the Wards' estate or its tenantry. Grants by private individuals or local bodies are also not inappropriate in the case of new developments like dairies, cattle breeding societies, etc.—“so long as any undue pauperization of societies is avoided”.

Agricultural Advances through or to societies.—

There has been considerable discussion from time to time as to the relation of societies towards the agricultural loans made by Government under Act XII of 1884 to owners and occupiers of agricultural land for agricultural purposes, such as the purchase of seed and cattle. As the class of men who borrow from co-operative societies, and the objects for which they borrow are practically the same as those contemplated by the Act of 1884, it has been suggested that the services of these societies should be utilized in the distribution of these loans; for the distribution of loans through societies would enable Government to utilize the local knowledge of the societies and to benefit from the additional security which they afford, while it would save the borrowers from the delays and vexations attendant on the direct receipt of loans from the Government treasuries.

There are many who would go a step further and provide for loans being made not merely through the society, but to the society. It is argued that unless the disposal of the loan (subject to its employment for the objects specified in the Act) is left to the society, the Government fails to relieve

itself of the enormous amount of time and trouble expended in the clerical work connected with the grant and recovery of loans; that if left to the society for distribution, the loans will be far more efficaciously distributed; and that if recovery is effected by the society, it will be managed with far more regard to individual circumstances than is ever possible when recovery is left to Government agency. The only serious objection which has been brought against the scheme is that societies would be tempted to obtain large additions to their capital at the expense of the State instead of relying on their own exertions or those of their financing agencies. We believe, however, that if such grants are given after approval by the Registrar or some officer authorized by him, there is little fear of any such misuse of the system. We should not in any case suggest that the system should apply to isolated applications by members for loans, as these can be met by the societies themselves or can be dealt with direct by the Government officers. The grant of Government agricultural loans to societies should be confined to occasions when these loans are being distributed wholesale, as in the case of severe scarcity, or in that of a scheme of new colonization on waste lands. The grants made under these circumstances to societies could no doubt be made by Government under ordinary executive order and could be recovered under the provisions of section 44 of the Co-operative Societies Act. But the natural course would be to make them under the Agriculturists Loans Act of 1884 and as a co-operative society is not qualified to receive loans under that Act a small amendment in the Act would then have to be undertaken. It seems to us important to emphasize the fact that these loans are not to be looked on as advances for fostering a new form of organization; but are part of the ordinary routine of administration, involving no change of policy or procedure.

except to the extent of substituting the agency of co-operative societies for that of Government officials. We would therefore recommend the addition of a section to Act XII of 1884 so as to allow of the making of rules as to loans to be made to co-operative societies registered under Act II of 1912 for the purposes specified in the Act of 1884. (*Maclagan Committee's Report*).

Similar arguments apply to Land Improvement loans which can suitably be given to societies when an improvement has to be made by the joint exertions of several peasants.

Considerations governing financing of members during famines—Since its inception the co-operative movement has not been subjected to the severe strain of a great famine. The Maclagan Committee believe that if fluid resources have been accumulated in sufficient quantities, and if agricultural loans are freely granted to the societies in the manner they have recommended, the situation will be satisfactorily met. They go on to observe—

The chief difficulty in all famines will lie in the judicious management of loans and recoveries after the main stress is over. For some little time after the scarcity has been at its height, members will apply for larger loans than usual and will at the same time be less able than usual to repay what they already owe. It is for the society to bear in mind the inevitable recurrence of cycles of good and bad years, to be economical in the issue of loans in times of plenty, and to be still more economical in times of stress, but at the same time to continue granting loans, harvest after harvest, till good times return, ignoring, if necessary, the preconceived limits based on valuations of the members' property and earnings, and finally to recover gradually, but vigilantly, all sums that a prudent money-lender would recover, without allowing the borrower to misuse on unnecessary objects the savings which

he should refund to the society. In some parts of the country which are particularly liable to famine, the existence of seasonal cycles is well recognized and is the basis of all private money-lending and all economic development. In such areas the society and its depositors should from the beginning understand that the loans given out may have to be extended and may have to be supplemented for further periods, reaching, it may be, to three, four or five years, but without any risk or doubt regarding ultimate repayments ; the peasants in such areas being known to be, as a rule, the hardiest of agriculturists and, if only time be given, the most honest of borrowers.

In Bombay and the Central Provinces there are small funds attached to the co-operative societies which are known as Famine Reserve funds. In Bombay this fund originated in a charitable donation by the Wadia Trustees, which was distributed among six small societies in famine tracts on their undertaking to add Rs. 20 each annually to their share. The money is kept in the Bombay Central Bank as a fixed deposit and may only be withdrawn in the event of a famine and with the Registrar's sanction. In the Central Provinces every Central Bank and primary society is required to contribute to the permanent and indivisible funds of the Provincial Union a sum amounting to 25 per cent. of the cost of the establishment, ect., maintained for it by the Union. This contribution is re-invested by the Union in the shares of the Central Bank which makes it, and the profits on such investment are separately invested as a Famine Insurance fund and may be only used for the support of the Provincial Bank with the Registrar's sanction and in time of famine.

The sums now at the credit of the infant Reserve funds are at present of no particular importance. As safeguards against famine, in the ordinary sense of the term, these funds are at present of no appreciable value and the MacLagan

committee hold that famines should be met by co-operative institutions out of their own ordinary credit built up in the manner recommended by them in their Report and without the constitution of special funds of this character.

Financial aid by Government—Unlike most European Governments, the Government of India have hitherto closely adhered to the principle that it should abstain from giving direct financial aid to the movement. From this attitude, however, it has admitted of departure on three different occasions. It has allowed itself to make initial advances to encourage the establishment of new types of societies. It has in the case of one Provincial Bank (the Central Bank of Bombay) agreed to guarantee interest on debentures issued. And it has lately in two Provinces made special advances to meet difficulties caused by the war.*

Apart from these occasions the Government have never taken financial responsibility for the movement. But the connection of Government with co-operative banks and societies in the way of audit, supervision, and control is so close that there is a general impression among those interested, that Government could not afford to see the movement collapse and that the finances of banks and societies are to all intents and purposes backed by the State. In some cases the banks and even the Government officers connected with the movement have taken advantage of this impression. In others they have done what they could by precept and advertisement to counteract it. But the fact remains that the degree of ultimate responsibility attaching to Government is at present uncertain. In a circular, dated February 5, 1914, which dealt with agricultural grants, the Government of India expressed a wish that in cases where, owing to general scarcity, the funds of societies have become depleted,

* Very recently it has had to come to the aid of the C. P. and Berar Provincial Co-operative Bank to save it from utter ruin.

special reference should be made to them, but no further indication has been given as to the possibility of their coming to the assistance of societies or as to the principles upon which such assistance would be given. The attitude of the Government, therefore, is that it disclaims all financial responsibility and makes no definite promise of monetary support. This policy is based on a desire to establish a genuine co-operative movement which shall be self-contained and self-supporting, and, in so far as it represents the rejection of a system of money doles or undue special concessions, it appears to be a correct and desirable policy. (*MacLagan Committee's Report*).

The success of this policy is well attested by the fact that the Indian co-operative movement has successfully faced a great banking crisis and the greatest war in history, and has convincingly demonstrated its inward vitality and strength. As Sir James (now Lord) Meston observed in the course of his presidential address at the Eighth U. P. Provincial Co-operative Conference—"all that was necessary was that we should come before the public and show that we have confidence in the Societies and that we were willing to step in and help them, if they really need help. As I say, the actual call upon that help was restricted to a very few banks. At the end of the year the total of new deposits actually exceeded the total withdrawals by a substantial amount, and the small sum which Government had advanced was repaid within a few months of its being paid. The societies fully financed, and no investor was kept waiting for a single day after his deposit had matured." Some of the Local Governments have, however, granted loans or subsidies for the development of special types of co-operative societies (e.g. housing societies irrigation societies etc.) or for helping propagandist bodies in carrying on co-operative propaganda work. Financial assistance for propaganda work is the

best form of financial aid that can be given by any Government.

Future relations of the Government towards the Co-operative Movement—It is agreed on all sides that Government supervision would probably be always required, though the precise duties of the Registrar would probably undergo some modification. Subject to this reservation Mr. W. R. Gourlay has expressed the opinion that the organisation of the societies for the purposes of inspection and audit should be such that the societies could eventually take over those duties and pay for themselves. The late Mr. Buchan agreed that the object to be aimed at was that the societies should eventually assume responsibility for inspection and audit, but in the meantime he thought that the Government should be prepared to provide an adequate staff. The All-India Registrars' Conference of 1908 passed a resolution to the above effect *viz.*—"that the time should be looked forward to when the societies should themselves pay for audit and inspection, but that until this could be arranged for, the Government should be prepared to provide such reasonable staff as might be necessary for the continuous development of the movement in the varying conditions of each province."

It appears to us that the joint efforts of both officials and non-officials are and will be necessary for a good long time for the continuous and permanent success of the co-operative movement in India. The real solution of the situation lies not in the total withdrawal of Government control, but in the combination of a mixed agency of official and non-official workers whose harmonious working for a series of years may gradually lessen the degree of Government control, till such time when there will be, as Lord Carmichael has tersely put it, "a government of the societies by the members and for the members" and when "the initiative of the state" will be

converted into "an active popular propaganda conducted by the people," so that there will be a co-operative movement which will "stand alone without direct support from Government."

CHAPTER XXI
**THE LAW OF CO-OPERATION IN INDIA :
THE CO-OPERATIVE SOCIETIES ACT :
ACT NO. II OF 1912.**

Passed by the Governor-General of India in Council.

(Received the assent of the Governor-General on the 1st March, 1912.)

An Act to amend the Law relating to Co-operative Societies.

Whereas it is expedient further to facilitate the formation of Co-operative Societies for the promotion of thrift and self-help among agriculturists, artisans and persons of limited means, and for that purpose to amend the law relating to Co-operative Societies ; It is hereby enacted as follows :—

Preliminary.

- Short title and extent.** I. (1) This Act may be called the Co operative Societies Act, 1912; and
(2) It extends to the whole of British India.

The Act of 1904 was called the "Co-operative Credit Societies Act" The present Act is called the "Co-operative Societies Act". The reason is that the present Act applies not only to Credit Societies, but also to co-operative associations organized for purposes of distribution, production, cattle insurance, and the like, and this constitutes the chief change introduced by the new law.

While avoiding any precise definition of a Co-operative Society, the Act is not without indication of the class of Societies for which its provisions are primarily intended. The preamble, for instance, and the restrictions imposed by Sec 5 on the extent of share-holding permissible to an individual member, will show the class of persons whom it is intended to benefit, and co-operators will also receive some guidance from the wording of Sec. 4 which requires Societies to be based on co-operative principles. The former Act contemplated only two classes of societies—*rural* and *urban*. The present Act abolishes the distinction and makes

provision for three kinds of societies not specifically mentioned in the old Act,—

- (a) In the first place it recognises the societies known as Unions or Central Banking Unions which are entirely composed of other Societies. Joint Societies of this character must, under the first proviso to S.c. 4, be ordinarily of limited liability, but they are not subject to the restrictions laid down in S.c. 5 as regards the limit of shares to be held by each member or to the requirements in the way of members or residence &c. which are prescribed in Sec. 6.
- (b) The Act further recognises the existence of such Central Societies as are composed partly of other societies and partly of individuals and although the shares of individual members in such Societies are restricted by Sec. 5, they stand in respect of Secs. 4 and 6 on the same footing as the unions described under (a) above.
- (c) Another type of Society, now definitely recognised, is the "Central Bank" or other Central Society, the members of which are individuals, but the main object of which is to benefit not its own members but other Societies of a co-operative character (Sec 4), and it is considered reasonable that such a Society, though formed mainly on joint-stock lines, should obtain as far as possible the privileges conferred by the Act on co-operative associations

Of the further changes made in the Act the more important are the following :—

1. The necessity for submitting proposed by-laws before registration and for obtaining registration of amendments in by laws (sections 8 and 11).
2. The permission allowed to the Local Government to confer the powers of a Registrar on persons other than the Registrars (section 3) and to the Registrar to depute persons to conduct the work of audit, enquiry and inspection (sections 17, 35 and 37); the power granted to a Collector to depute persons to inspect records (section 21 of the old Act) being at the same time withdrawn.
3. The special evidential value attached to a certificate of registration (section 10) and registers or lists of member or shares (section 25).

4. The extension of the period of the prior claims of a society on agricultural produce from one year to eighteen months [section 19 (a)] and the inclusion of such claims on fodder and machinery supplied and on articles manufactured from materials supplied [section 19 (b).]
5. The omission of the provision in section 21 of the old Act which prohibited the making of any charge for audit. (It may be noted that although the prohibition has been withdrawn the Government of India do not at present desire that any charges should be made except in the case of societies where professional audit of a fairly elaborate character is found necessary.)
6. The exemption under section 27 of share transfers and similar documents from compulsory registration.
7. The expansion of the field for the investment or deposit of funds (section 32).
8. The permission given by section 34 to devote a part of the profits of a society to charitable (including educational) purposes.
9. The power given to a creditor to move the Registrar to inspect the books of a society (section 36).
10. The power given to the Local Government to prescribe returns [section 43 (2), (i)] and the omission of the provision [section 27 (2) of the old Act] expressly empowering Local Governments to prescribe the rate of interest on deposits.
11. The permission given to Local Governments to delegate the power of hearing appeals against orders of dissolution (section 39) and of making rules [section 43 (3)].
12. The prohibition of the use of the word "Co-operative" in the title of future associations not registered under the Act. (section 47).

Definitions.

2. In this Act, unless there is anything repugnant in the subject or context,—

- (a) "by-laws" means the registered by-laws for the time being in force and includes a registered amendment of the by-laws ;

Every application to register a society shall be accompanied by a copy of the proposed by-laws [*Sec. 8 (3)*], which must not be contrary to the provisions of the Act. *Sec. 9.*

For amendment of by-laws see *Sec. 11.*

A copy of the by-laws should be kept in the office of the Registered Society for inspection free of charge by the members or non-members. *Sec. 16.*

The Local Government may make rules under *Sec. 43 (c)* prescribing the matters in respect of which a Society may make by-laws and laying down procedure for amending such by-laws.

(b) "committee" means the governing body of a registered society to whom the management of its affairs is entrusted :

The by-laws of a Society generally frame rules for the formation of the "Committee". *Sec 43 (g).*

(c) "member" includes a person joining in the application for the registration of a society and a person admitted to membership after registration in accordance with the by-laws and any rules :

The word "person" here apparently includes both males and females as well as Registered Co-operative Societies which are bodies corporate under *Sec. 18*. Those members applying for registration of a Co-operative Society must be above the age of 18 years. *Sec. 6. (1)*. The necessity of this qualification for persons becoming members after registration is not expressly provided for.

For conditions to be complied with by persons applying for admission, election of members, payment to be made or the interests to be acquired by members before the exercise of the right of membership, procedure for settling disputes between members or past members, withdrawal and expulsion of members, payments to such members, the mode of valuing a deceased member's share, the nomination of a person to whom such share or interest may be paid or transferred, payments to be made and the conditions to be complied with by members applying for loans, the period for which loans may be made and the amount that may be lent to an individual member—See rules framed by the Local Government under *Sec. 43* and the by-laws of Co-operative Societies.

For conditions under which *profits may be distributed* to the members of a society and the maximum rate of *dividend* which may be paid to members see rules made under Sec. 43 (r).

Sec. 13 deals with a member's *right to vote*. Sec. 14 deals with restriction on *transfer of share or interest of a member*. The share or interest of a member of a registered society is *not liable to attachment* except for any dues of the society. See Sec. 20 and 21. Facilities are provided for *transfer of share or interest of a deceased member*. See Sec. 22. *Liability of a member of a registered society continues for 2 years from the date of his ceasing to be a member*. See Sec. 23.

The election of a new member must be personal and made by the society ; no person can claim admission under any automatic rules ; and an important principle is that the new member must be accepted by the old ones or their representatives in the Committee.

(d) "officer" includes a chairman, secretary, treasurer, member of committee, or other person empowered under the rule or the by-laws to give directions in regard to the business of the society :

(e) "registered society" means a society registered or deemed to be registered under this Act :

For *requisites of an application for a Society* see Sec. 8. For *registration of a Society* see Sec. 9. For evidence of Registration of a Society see Sec. 10. For *address and change of address of a registered Society* see Sec. 15. Every Society shall keep a copy of the Act, the rules and the by-laws open to inspection. See Sec. 16. For *privileges of a Registered Society* see Secs. 18 to 28. For provisions relating to *property and funds of a Registered Society* see Secs. 29 to 34. For provisions of law relating to *inspection of affairs of Registered Societies* see Secs. 35 to 38. For provisions relating to *dissolution and winding up of such societies* see Secs. 39 to 42. Every Registered Society shall form and maintain a *Reserve Fund*. See Sec. 33 and notes thereunder. The Society shall publish its *annual accounts and balance sheets* and shall submit *returns* to the Registrar prescribed by the latter.

(f) "registrar" means a person appointed to perform the duties of a Registrar of Co-operative Societies under this Act ; and

The Registrar is to decide *disputes* as to whether any person is an *agriculturist or not* and whether a person is a *resident of town or not*

(Sec. 7). It lies in his discretion to *register a society and the by-laws and amendments thereof. (Secs. 9 to 11)* He may hold an *enquiry into the constitution, working and financial condition of a registered society and can cancel registration of a society on grounds set forth in Secs. 39 and 40.* He may *appoint a liquidator* to wind up the society and realise its assets on such cancellation. *See Sec. 42.* He may also cancel registration of a society after enquiry under Secs. 35 and 36. Under Sec. 29 he can *sanction loan by one registered society to another and can sanction the lending of money on the security of moveable property* by a society with unlimited liability. He is to *approve the bank and persons carrying on the business of banking where a registered society is to deposit its funds*

He is to *sanction under Sec. 34 contribution of an amount not exceeding ten per cent. of the net profits to any charitable purpose after one-fourth of such profits had been carried over to the reserve fund.* He is to *keep a register of the names and addresses of all societies*

He shall *issue to the society a copy of the amended by-laws.* He shall *audit or cause to be audited the accounts of every registered society.*

He shall on an application by a creditor of a registered society inspect or direct some other persons to hold an inspection of the books of the society.

(g) "rules" means rules made under this Act.

The Act deals with the constitution of the societies. The provisions of the Act have been confined to those general principles which all co-operative societies must accept as a condition of being permitted to enjoy the advantages afforded by special legislation. There are other matters in respect of which some guidance and some restrictions will be necessary ; and they have been left to be dealt with by Local Governments in accordance with local needs, in the exercise of the rule-making power which the Act confers upon them. Simplicity and elasticity are as essential in the rules framed under the law as they are in the law itself.

Sec. 23 of the General Clauses Act prescribes the provisions for making rules and by-laws. They must be published first for general information inviting objections on them which must be considered on a date before they are finally published.

Registration.

3. The Local Government may appoint a person to be Registrar of Co-operative Societies for the Province or any portion of it, and

The Registrar.

may appoint persons to assist such Registrar, and may, by general or special order, confer on any such persons all or any of the powers of a Registrar under this Act.

For other powers of the Local Government under this Act see Sec. 29 cl. 3, Sec. 33, Sec. 39 cl. (5) and Secs. 43, 45, 46 and 47.

4. Subject to the provisions hereinafter contained, a society which has as its object the promotion of the economic interests of its members in accordance with co-operative principles, or a society established with the object of facilitating the operations of such a society, may be registered under this Act with or without limited liability :

Societies which may be registered.

Provided that unless the Local Government by general or special order otherwise directs—

- (1) the liability of a society of which a member is a registered society shall be limited ;
- (2) the liability of a society of which the object is the creation of funds to be lent to its members, and of which the majority of the members are agriculturists, and of which no member is a registered society, shall be unlimited.

Under the former Act the objects of the co-operative societies were declared to be "the encouragement of individual thrift and of mutual co-operation among the members, with a view to the utilisation of their combined credit, by the aid of their intimate knowledge of one another's needs and capacities, and of the pressure of local public opinion." But this section of the new Act considerably widens the scope of co-operation in India by allowing a co-operative society to have as its main object the promotion of the economic interests of the members in accordance with co-operative principles. The results of this change have been the institution of the numerous varieties of co-operative societies described in the body of the book.

The former Act recognised only two classes of primary societies *rural* and *urban*. The combination of primary co-operative societies was not permitted under the old Act. This section provides that societies can be established with the object of facilitating the operations of primary

co-operative societies. Such societies are apparently the Central Banks, the Guranteeing Unions and the District Agricultural and Co-operative Associations which are all of limited liability. Joint Societies of this character must, under sub-section (1), be ordinarily of limited liability; but they are not subject to the restrictions laid down in *Sec 5* as regards the limit of shares to be held by each member, nor to the requirements as regards numbers, residence etc, which are prescribed in *sec. 6*. From this section it appears that : —

- (1) Credit Societies of which the majority of members are agriculturists must be of unlimited liability.
- (2) Credit Societies of which the majority of members are non-agriculturists may be formed either on the basis of limited liability or on that of unlimited liability.
- (3) Societies, whether credit or non-credit, of which all or some of the members are registered societies, must be of limited liability.
- (4) Societies other than credit co-operative societies have a free choice in the matter of liability.

The word "agriculturist" is thus defined in *Sec. 2 of Act XVII of 1879 (Deccan Agriculturists' Relief Act)*—"Agriculturist shall be taken to mean a person who by himself or by his servants or by his tenants earns his livelihood wholly or principally by agriculture carried on within the limits of a district or part of a district to which this Act may for the time being extend, or who ordinarily engages personally in agricultural labour within those limits".

*"Explanation :—*An agriculturist who, without any intention of changing his status as such, temporarily ceases to earn his livelihood by agriculture or to engage personally in agricultural labour as aforesaid or who is prevented from so earning his livelihood on engaging in agriculture by age or bodily infirmity or by necessary absence in military service of His Majesty, does not thereby cease to be an agriculturist within this definition."

"An agriculturist shall be deemed to reside where he earns his livelihood by agriculture or personally engages in agricultural labour."

The term as used here is not meant to include the wealthy rent-receiver. *See para 13 of the Government of India Resolution dated the 29th April, 1904.*

5. Where the liability of the members of a society is limited by shares, no member other than a registered society shall—

"Restrictions on interest of member of society with limited liability and a share capital."

(a) hold more than such portion of the share capital of the society, subject to a maximum of one-fifth, as may be prescribed by the rules; or (b) have or claim any interest in the shares of the society exceeding one thousand rupees.

By Bengal Government rule 4, the portion referred to in sub-section (a) has been fixed at one-fifth. An individual member can hold only up to a fifth of the total number of shares provided its value does not exceed one thousand rupees. In the case of Central Banks Local Governments are empowered by sec. 46 to sanction a relaxation of the rule as to the limit of the value of shares, in order to enable such Central Banks to raise sufficient share capital.

The object of the limitation of shares is to render impossible the acquisition by individuals of a predominant interest in such societies, to prevent speculation in connection with them and to discourage those who might desire for personal profit from availing themselves of the facilities given by the Act to start banks for other ends than those for which the societies are intended.

6. (1) No society, other than a society of which a member is a registered society, shall be registered under this Act which does not consist of at least ten persons above the age of eighteen years and, where the object of the society is the creation of funds to be lent to its members, unless such persons—

Conditions of registration.

(a) reside in the same town or village or in the same group of villages; or,

(b) save where the Registrar otherwise directs, are members of the same tribe, class, caste or occupation.

(2) The word "limited" shall be the last word in the name of every society with limited liability registered under this Act.

This Section lays down the conditions of Registration. The application for registration must, in all cases, be submitted by to persons of or above the age of 18 years, and in the case of a Credit Society, the application must be submitted by persons who reside in the same town or village or are members of the same tribe, class, &c. It should be noted that in the case of a Communal Society the Registrar has been given discretionary power to register a Society which may include members of another caste or community.

Requirements regarding proximity of residence or community of race or occupation apply under this section to Credit Societies and are not prescribed as essential for societies other than Credit Societies. But there is nothing to prevent the Registrar from insisting on similar qualifications in the case of all societies. The requirements of this section regarding minimum number of members do not apply in the case of Unions and Central Societies. So there is nothing in the wording of the Act to prevent two Societies or one Society and one individual from applying for registration. But although no definite number of applicants has been prescribed in such cases it may be presumed that Registrars will exercise their discretion by refusing to register societies which do not represent a reasonable degree of real co-operation.

Distinction between "Town" and "Village."—Sir Edward Gait in his Report on the Census of 1911 (page 29) thus describes the word "Town"—

"For the purpose of the census the term was held to include (1) every municipality, (2) all civil lines not included within municipal limits, (3) every contonment, (4) every other continuous collection of houses inhabited by not less than 5000 persons, which the Provincial superintendent may decide to treat as a town for census purposes."

By the term "Village" Baden Powell means "a group of cultivation of a permanent character in one place, having a known area and a name in the map." (*Vide p. 11, Land Revenue in British India.*). He then goes on to say—"I say *permanent* because there are many soils where crops are only taken for two or three years in succession, and the place is then abandoned." For rural societies, unlimited liability has been prescribed as being most suitable as a general rule, seeing that real co-operation which it is desired to encourage is the utilisation of the combined credit for the benefit of individual members. But cases are conceivable in which it may be desirable to allow a limitation of liability to members of particular rural societies. The Act, therefore, gives Local Governments power, by special order, to relax the rule of unlimited liability.

7. When any question arises whether for the purposes of this Act a person is an agriculturist or a non-agriculturist, or whether any person is a resident in a town or village or group of villages, or whether two or more villages shall be considered to form a group, or whether any person belongs to any particular tribe, class, caste, or occupation, the question shall be decided by the Registrar, whose decision shall be final.

Power of Registrar to decide certain questions.

8. (1) For purposes of registration an application to register shall be made to the Registrar.

Application for registration.

(2) The application shall be signed—

- (a) in the case of a society of which no member is a registered society, by at least ten persons qualified in accordance with the requirements of section 6, sub-section (1) and
- (b) in the case of a society of which a member is a registered society, by a duly authorised person on behalf of every such registered society, and where all the members of the society are not registered societies, by ten other members or, when there are less than ten other members, by all of them.

(3) The application shall be accompanied by a copy of the proposed by-laws of the society, and the persons by whom or on whose behalf such application is made shall furnish such information in regard to the society as the Registrar may require.

The rules of all provinces provide for a form of application and prescribe the procedure to be followed by applicants. Applicants before sending up applications should consult the rules.

See notes under "by-laws" *Sec. 2 cl. (a)*. For "member" see *Sec. 6 sub-section. (1)* and notes thereunder. The necessity for submitting the by-laws before registration is a new feature of the Act.

Cl. 2 (a) of this section deals with registered societies composed of individual members and not of registered societies.

Cl. 2 (b) deals with two classes of Central Societies or Banks namely (1) Central banks or Societies of which the share-holders consist only of primary societies without any restriction as to number ; in the case of such societies the application for registration has to be signed by a duly authorized person on behalf of each of the primary societies, and (2) Central Banks or Societies of the mixed type of which the share-holders are both primary societies and individual members, numbering more or less than 10. In the case of this latter kind of societies the application for registration has to be signed by duly qualified representatives of the primary societies and also by all the individual members, if their number is less than 10, and by 10 of the individual members, if their number exceeds ten.

9. If the Registrar is satisfied that a society has complied with the provisions of this Act and the rules and that its proposed by-laws are not contrary to the Act or to the rules, he may, if he thinks fit, register the society and its by-laws.

See notes under *Sec. 2. Sub-secs. (a) and (g).*

10. A certificate of registration signed by the Registrar shall be conclusive evidence that the society therein mentioned is duly registered unless it is proved that the registration of the society has been cancelled.

For cancellation of registration of Societies see *Secs. 40 and 41* and notes thereunder.

11. (1) No amendment of the by-laws of a registered society shall be valid until the same has been registered under this Act, for which purpose a copy of the amendment shall be forwarded to the Registrar.

(2) If the Registrar is satisfied that any amendment of the by-laws is not contrary to this Act or to the rules, he may, if he thinks fit, register the amendment.

(3) When the Registrar registers an amendment of the by-laws of a registered society, he shall issue to the society a copy of the amendment certified by him, which shall be conclusive evidence that the same is duly registered.

Rights and liabilities of members.

12. No member of a registered society shall exercise the rights of a member unless or until he has made such payment to the society in respect of membership or acquired such interest in the society, as may be prescribed by the rules or by laws.

Member not to exercise rights till due payment made.

See notes under sec. 2. cl. (a), (c) and (e). "Payment" apparently means the payment of an entrance fee. The words "interest in the society" are difficult to define. In sec. 13 the corresponding words used are "interest in the capital of the society". In sec. 22 reference is made to "the share or interest of a (deceased) member". Apparently the words refer to the capital formed out of payments made to the society by a member which are not returnable like deposits received for a specified time or at call and which are more or less of a permanent character.

A person acquires interest in the society or in the capital of the society if he purchases shares and make such payments as may be required by the rules.

In the case of all limited liability societies which issue shares there is some relation between the interest acquired by a member in the capital of the society and the liability he undertakes. On the other hand in the case of an unlimited liability society which issues shares there is no such relation. In such cases members have one vote notwithstanding the extent of their interest in the Society.

In sec. 22 share or interest practically means the same thing. A member may acquire by inheritance a full share or may have only a fractional interest in a share.

13. (1) Where the liability of the members of a registered society is not limited by shares, each member shall, notwithstanding the amount of his interest in the capital, have one vote only as a member in the affairs of the society.

Votes of members.

(2) Where the liability of the members of a registered society is limited by shares, each member shall have as many votes as may be prescribed by the by-laws.

(3) A registered society which has invested any of part its funds in the shares of any other registered society may appoint as its proxy, for the purpose of voting in the affairs of such other registered society, any one of its members.

In the case of a society with unlimited liability each member can have but one vote only in the management of the society. In the case of a society where the liability of each member is limited by shares each member may have one vote or more than one vote as may be prescribed by the by-laws of such society.

Sub-sec. 3 refers to the representation of the interests of primary societies which have invested part of their funds either in other primary societies or in the Central Banks. In such a case the primary society so investing its fund may appoint any of its members as its representative for the purpose of voting in the affairs of the other primary or central banks concerned.

14. (1) The transfer or charge of the share or interest of a member in the capital of a registered society, shall be subject to such conditions as to maximum holding as may be prescribed by this Act or by the rules.

Restrictions on
transfer of share or
interest,

(2) In case of a society registered with unlimited liability a member shall not transfer any share held by him or his interest in the capital of the society or any part thereof unless—

- (a) he has held such share or interest for not less than one year ; and
- (b) the transfer or charge is made to the society or to a member of the society.

Sec. 100 of the Transfer of Property Act thus defines the word "*Charge*"—Where immoveable property of one person is, by act of parties or operation of law, made security for the payment of money to another, and the transaction does not amount to a mortgage, the latter person is said to have a "*charge*" on the property.

"Maximum holding" prescribed by sec. 5 sub-sec. (b) of this Act in the case of a society with limited liability is one thousand rupees. A member of a society with unlimited liability can transfer his share or charge his share with interest after a year of his membership, but under sec. 23 below his liability for the debts of the society will not cease with such transfer for a period of two years from the date of his ceasing to be a member.

The restriction placed by the old law on transfer of shares of non-credit societies with limited liability has been removed by this section.

Under sec. 22 a duly qualified successor of a deceased member may, in the case of a limited society, claim the transfer to himself of the share of the deceased.

In these and in other respects the bulk of the non-credit co-operative societies recognised by the new law are placed on a footing similar to that of joint stock companies, and it will be necessary to see that the Act is not utilized for the benefit of societies which are not really of a co-operative character. Precautions in this direction can be taken in dealing with proposed by-laws, and it will, for example, be possible, to require a society with share capital to provide in its by-laws that shares shall not be transferable, or shall be transferable to such persons only as fulfil certain requirements, such as that the persons shall be duly elected as members.

Duties of registered societies.

15. Every registered society shall have an address, registered in accordance with the rules, to which all notices and communications may be sent, and shall send to the Registrar notice of every change thereof.

16. Every registered society shall keep a copy of this Act and of the rules governing such society, and of its by-laws, open to inspection free of charge at all reasonable times at the registered address of the society.

The words *"Open to inspection"* apparently mean "open to inspection by not only the members of the Society but also by the outside public."

17. (1) The Registrar shall audit or cause to be audited by some person authorized by him by **Audit.** general or special order in writing in this behalf the accounts of every registered society once at least in every year.

(2) The audit under sub-section (1) shall include an examination of overdue debts, if any, and a valuation of the assets and liabilities of the society.

(3) The Registrar, the Collector or any person authorised by general or special order in writing in this behalf by the Registrar shall at all times have access to all the books, accounts, papers and securities of a society, and every officer of the society shall furnish such information in regard to the transactions and working of the society as the person making such inspection may require.

Meaning of the word "audit."—The terms of the Act expressly require that the audit shall include an examination of over-due debts and a valuation of assets and liabilities. It is not merely the preparation of the balance sheets of societies ; but it is also a sufficient check of the list of the material assets of the members. It should embrace an enquiry into all the circumstances which determine the general position of the society.

Official audit.—The audit is in fact a state-controlled audit. It is through audit alone that an effective control can be exercised over the movement. It has been considered advisable that such an official audit should be compulsory in all cases and this is provided for in this section. There is no doubt that such an audit will give the outside public and the members more confidence in the management, thus encouraging deposits by members and outsiders. Even where no financial assistance may be received from Government, the societies will obtain valuable privileges under the Act, and it is reasonable that they should at the same time be obliged to submit their accounts to some check, which must in this country take the form of an official audit.

It is to be noted that under sub-sec. 3 of this section no person except the Registrar, the Collector or any person authorised by the Registrar is empowered to inspect the society. This is to prevent harassment of the officers of the Society by petty government

officials. The assistants to the Registrar and the auditors are generally so empowered under this section.

According to the old Act (of 1904) the Registrar was responsible for the audit of the accounts of the societies, but the present Act gives him power to have the audit done by persons authorised by him in writing. No charge could be made for the official audit according to the old Act but sec. 43 (p) of this Act authorises local governments to levy audit fees.

Privileges of registered societies.

18. The registration of a society shall render it a body corporate by the name under which it is registered, with perpetual succession and a common seal, and with power to hold property, to enter into contracts, to institute and defend suits and other legal proceedings and to do all things necessary for the purposes of its constitution.

*Societies to be
bodies corporate.*

Registration of the society is necessary to make it a corporation which is an association of persons which the law treats in many respects as if it were itself a person. The rights and duties of corporations descend to the successive members of the corporation. This capacity of perpetual succession is regarded as the distinguishing feature of corporations as compared with other societies. Registration of the society makes it a body corporate—a legal entity—a jural person—that can sue and be sued, own property, and engage in activities of such kinds for which it has been incorporated.

19. Subject to any prior claim of the Government in respect of land-revenue or any money recoverable as land-revenue or of a landlord in respect of rent or any money recoverable as rent, a registered society shall be entitled in priority to other creditors to enforce any outstanding demand due to the society from a member or past member—

*Prior claim of
society.*

- (a) in respect of the supply of seed or manure or of the loan of money for the purchase of seed or manure—upon the crops or other agricultural produce of such member or person at any time within eighteen months from the date of such supply or loan ;

- (b) in respect of the supply of cattle, fodder for cattle, agricultural or industrial implements or machinery, or raw materials for manufacture, or of the loan of money for the purchase of any of the foregoing things—upon any such things so supplied, or purchased in whole or in part from any such loan, or on any articles manufactured from raw materials so supplied or purchased.

Cl. (a). Under the previous Act the priority of claim in regard to crops or other agricultural produce was limited to one year only from the date of supply of the loan ; but under this section of the present Act the time limit to enforce the claim of the society has been extended to eighteen months, as many crops, such as sugar-cane, take more than a year from sowing to reaping.

Cl. (b). Under secs. 60 and 61 of the Civil Procedure Code the cattle, implements and agricultural produce of agriculturists could not be attached and sold in execution of a decree under certain circumstances ; but by this special piece of legislation the society could recover its dues by attachment of cattle, agricultural implements etc. Under the old Act of 1904 the society had no priority of claim on the finished articles manufactured out of the raw materials supplied by the society or purchased with money supplied by the society, but under this Act the Society has such prior claim not only on the raw materials supplied by it or purchased with its money, but also on any articles manufactured from raw materials so supplied or purchased. The society has no power of distraint. The priority of claim could only be enforced through the Civil Court.

In regard to cattle, implements or raw materials and articles no special period of limitation is fixed. Apparently, therefore, the enforcement of such claims is governed by the ordinary law of limitation *i.e.* three years.

By an application made under sec. 73 of the Civil Procedure Code a registered co-operative society cannot enforce its prior claim within the meaning of this section as against a judgment creditor at whose instance property is going to be sold, if it has no decree or a charge under sec. 20 of the said Act. Other remedies may still be open to such society. *See 18 C. W. N. 1141* (decided by the Calcutta High Court). Sec. 73 of the Civil Procedure Code relates to rateable distribution of proceeds of execution sale among decree-holders for money payable. So it clearly

appears from the reading of the section that the person (here the Shabazpore Co-operative Bank) claiming rateable distribution must be a money decree-holder which the Society was not in this case. Hence the Society's claim was disallowed, it being not a charge within meaning of sec. 20 of this Act. *Munshi Abdul Kadir vs. Shabazpore Co operative Bank*, 18 C. W. N. 1141.

20. A registered society shall have a charge upon the share or interest in the capital and on the deposits of a member or past member and upon any dividend, bonus or profits payable to a member or past member in respect of any debt due from such member or past member to the society, and may set off any sum credited or payable to a member or past member in or towards payment of any such debt.

Charge and set-off
in respect of shares
or interest of
member.

For what is "charge" see notes under sec. 14. A Registered Society is empowered by this section to set off any sum credited or payable to a member or past member towards payment of any debt due by him to the society without the intervention of the Civil Court simply by transferring the sum lying to the credit of the member to his loan account. If the dues of the society are not thus satisfied it has to seek the aid of the Civil Court in the way laid down in the previous section to recover its dues.

21. Subject to the provisions of section 20, the share or interest of a member in the capital of a registered society shall not be liable to attachment or sale under any decree or order of a Court of Justice in respect of any debt or liability incurred by such member, and neither the Official Assignee under the Presidency Towns Insolvency Act, 1909, nor a Receiver under the Provincial Insolvency Act, 1907, shall be entitled to or have any claim on such share or interest.

Shares or interest
not liable to attach-
ment.

This section is a piece of special legislation in favour of a member of a Registered Society. The share or interest of a member in the capital of the society cannot be now attached or sold in execution of the decree for any other debt owed by any member of the Society. Even such share or interest of a member cannot be treated as assets of an

insolvent liable to be distributed among his creditors. This has been distinctly laid down in the latter part of this section.

22. (1) On the death of a member a registered society ^{Transfer of interest on death of member.} may transfer the share or interest of the deceased member to the person nominated in accordance with the rules made in this behalf, or, if there is no person so nominated, to such person as may appear to the committee to be the heir or legal representative of the deceased member, or pay to such nominee, heir or legal representative, as the case may be, a sum representing the value of such member's share or interest, as ascertained in accordance with the rules or by-laws :

Provided that—

- (i) in the case of a society with unlimited liability, such nominee, heir or legal representative, as the case may be, may require payment by the society of the value of the share or interest of the deceased member ascertained as aforesaid ;
 - (ii) in the case of a society with limited liability, the society shall transfer the share or interest of the deceased member to such nominee, heir or legal representative, as the case may be, being qualified in accordance with the rules and by-laws for membership of the society, or on his application within one month of the death of the deceased member to any person specified in the application who is so qualified.
- (2) A registered society may pay all other moneys due to the deceased member from the society to such nominee, heir or legal representative, as the case may be.
- (3) All transfers and payments made by a registered society in accordance with the provisions of this section shall be valid and effectual against any demand made upon the society by any other person.

Sub-clause (1) of this section relates to the payment or transfer of the *share or interest* of a deceased member after his death.

Sub-clause (2) relates to the payment of *all the other moneys* such as deposits, dividends &c. due to the deceased member from the society after his death.

"Person nominated." Every member may, at the time of his becoming a member, nominate a person to whom in the event of his death, his share or interest with the society, referred to in this section of the Act, shall be transferred or its money value paid. Such nomination should be made in such manner as the Local Government may, by rules framed under the Act, prescribe. One person only can be so nominated. See in this connection sec. 43, sub sec. (2) which empowers the Local Government to make rules for such nomination by members. It is not, however, compulsory on the part of any member to nominate any person to receive after his death payment of his dues either by transfer or in value. When there is no nominee the committee may determine as to who is the heir or legal representative of the deceased member.

In the case of an unlimited liability society the nominee, or if there be no nominee, the heir or legal representative *may* be paid the value of his share or his interest. The value of share must be determined in accordance with the rules or by-laws. Presumably the value of the share or interest means the amount actually received by the society from the deceased member or from any member from whom the deceased member may have acquired the share. It should be understood that an unlimited liability society *is not compelled* by sub-clause (1) (i) to pay the value of share or interest to such nominee or heir, if the committee have any doubts in the matter.

In the case of limited liability society it is *obligatory* on the part of the society to transfer the share or interest :—

- (1) to the nominee, if the nominee is eligible for membership ;
- (2) if there is no nominee, to the heir or legal representative, as determined by the committee, if such heir or legal representative is eligible for membership ;
- (3) to any person to whom the nominee wants the share to be transferred, if such person is eligible for membership, provided that the nominee submits an application within one month from the date of the death of the deceased member ;
- (4) where there is no nominee, to any person to whom the heir or legal representative, as determined by the committee, wants the share to be transferred ;

- (5) if neither the heir nor the nominee is eligible for membership, or if he cannot arrange for a transfer to a third person who is eligible for membership, the society is at liberty to pay the value to the nominee or heir, as the case may be, provided its by-laws allow it to do so.

In the case of *other momeys* such as deposits, dividends, etc., both limited and unlimited liability societies are on the same footing. It is optional on the part of the society to make over the dues to the nominee when there is one and if there be no nominee to the heir or legal representative as determined by the committee. The committee may require Letters of Administration, Probate or Succession certificate when such payments are made.

The object of this section is to protect societies from undue harassment in case payment is made through a bona-fide mistake to a wrong person. If, for instance the heir or legal representative is wrongly determined by the committee, the rightful or legal representative cannot sue the Society for recovery of the *amount paid*. The rightful heir can sue the person to whom the payment has been wrongly made. The nominee, again, may not be the rightful owner or heir; but if he receives payment the society is absolved of all responsibility towards the rightful heir.

It should be noted here that ordinarily a Succession certificate, a Probate or Letters of Administration are necessary to recover any debt due to a deceased person. But this section, as it stands, enables a registered society either to transfer the share or interest of the deceased member or to pay a sum representing the value of such member's share either to his nominee or to the heir or legal representative of the deceased member after recording a finding as to who is the heir or legal representative of the deceased member. This is one of the many privileges granted to a co-operative society.

23. The liability of a past member for the debts of a registered society as they existed at the time when he ceased to be a member shall continue for a period of two years from the date of his ceasing to be a member.

Liability of past member. "Past member" means a living member who has ceased to be a member. Under the former Act there was a shorter period of limitation viz. one year during which period the past member continued liable

for the debts of the society. But under the present Act he remains liable for two years from the date of his ceasing to be a member.

24. The estate of a deceased member shall be liable for a period of one year from the time of his decease for the debts of a registered society as they existed at the time of his decease.

Liability of the estates of deceased members.

The former section deals with the liability of member who has ceased to be so, but who is not dead ; this section deals with the liability of a deceased member.

25. Any register or list of members or shares kept by any registered society shall be *prima facie* evidence of any of the following particulars entered therein :—

Register of members.

(a) the date at which the name of any person was entered in such register or list as a member ;

(b) The date at which any such person ceased to be a member.

Sec. 25. This section is a special rule of evidence. For Certificate of Registration see *sec. 10*.

26. A copy of any entry in a book of a registered society regularly kept in the course of business, shall, if certified in such manner as may be prescribed by the rules, be received, in any suit or legal proceeding, as *prima facie* evidence of the existence of such entry, and shall be admitted as evidence of the matters, transactions and accounts therein recorded in every case where, and to the same extent as, the original entry itself is admissible.

Proof of entries in societies' books.

Sec. 34 of the Evidence Act runs thus : "Entries in books of account, regularly kept in the course of business, are relevant whenever they refer to a matter into which the court has to enquire, but such statements shall not alone be sufficient evidence to charge any person with any liability."

This section is enacted with a view that the original accounts of a

society need not be produced in court, but that only a copy of such accounts certified to be a true copy will suffice.

The Bengal rules provide that the certificate is to be dated and subscribed by the Secretary or Chairman of the society or by any other officer approved by the Registrar. See rules framed under sec. 43.

Such certified copies are merely a *prima facie* evidence of the transactions and are not conclusive proofs of them. The words "*prima facie*" mean (on the first aspect) evidence and presumption which will prevail, if not rebutted or disproved.

See also sec. 4 of the Banker's Evidence Act which lays down that a certified copy of any entry in a Banker's book shall in all legal proceedings be received as *prima facie* evidence of the existence of the entry.

Exemption from compulsory registration of instruments relating to shares and debentures of registered society.

27. Nothing in section 17, sub-section (1), clauses (b) and (c), of the Indian Registration Act, 1908, shall apply to—

- (1) any instrument relating to shares in a registered society, notwithstanding that the assets of such society consist in whole or in part of immoveable property ; or
- (2) any debenture issued by any such society and not creating, declaring, assigning, limiting or extinguishing any right, title or interest to or in immoveable property except in so far as it entitles the holder to the security afforded by a registered instrument whereby the society has mortgaged, conveyed or otherwise transferred the whole or part of its immoveable property or any interest therein to trustees upon trust for the benefit of the holders of such debentures ; or
- (3) any endorsement upon or transfer of any debenture issued by any such society.

This section and the one following it have been enacted with a view to give facilities to the societies to transact their business with as little expense as possible. By the special provision of law laid down in this section instruments relating to shares in a society whose assets may

consist of immoveable property and debentures of the classes described in cl. (2) are exempted from compulsory registration.

Clauses (b) and (c) of sub-sec. 1 of sec. 17 of the Indian Registration Act deals with compulsory registration of non-testamentary instruments (other than gifts of immoveable property) which purport or operate to create, declare, assign, limit or extinguish, whether in the present or in the future, any right, title or interest, whether vested or contingent, of the value of one hundred rupees and upwards to or in immoveable property and non-testamentary instruments which acknowledge the receipt or payment of any consideration on account of the creation, declaration, assignment, limitation or extinction of any such right or interest.

The instruments, the debentures, and endorsement of such debentures and their transfers referred to in sub-secs. (1), (2) and (3) respectively are exempted from the operation of cls. (b) and (c) of sub-sec. (1) of sec. 17 of the Indian Registration Act noted above. The debentures mentioned in sub-sec. (2) may not have anything to do with immoveable property; but they entitle the debenture-holders to the benefit of having a lien upon the registered mortgage or conveyance executed by the Registered Society in favour of trustees for the benefit of the holders of such debentures.

28. The Governor-General in Council, by notification in the *Gazette of India*, may, in the case of any registered society or class of registered society, remit—

Power to exempt from income-tax, stamp-duty and registration-fees.

- (a) the income-tax payable in respect of the profits of the society, or of the dividends or other payments received by the members of the society on account of profits ;
- (b) the stamp-duty with which, under any law for the time being in force, instruments executed by or on behalf of a registered society or by an officer or member and relating to the business of such society, or any class of such instruments, are respectively chargeable ;
- (c) any fee payable under the law of registration for the time being in force.

This section exempts the societies from the payment of certain direct taxes to the Government.

In exercise of the powers conferred under sub-sec. (a) income tax payable in respect of profits of any registered Co-operative Society or of dividends and other payments received by members of any such society on account of profits has been exempted by *Circular Letter No. 681—F, dated Delhi, the 28th December 1912, amended by Notification No. 579—F dated 2nd June, 1913*. Stamp duties on instruments executed by or on behalf of any registered co-operative society or instruments executed by any officer or member of any such society and relating to the business of the society are similarly exempted under sub sec. (b).

All fees payable by or on behalf of any registered Co-operative Society under the law of Registration and all fees payable in respect of instruments executed by any officer or member of such Registered Society and relating to the business thereof are exempted under sub-sec. (c). *Vide Home Department notification No. 376 (Judicial) dated Simla, the 24th April, 1914.*

The Local Government may at any time withdraw such exemptions. (See Sec. 46.)

Property and funds of registered societies.

29. (1) A registered society shall not make a loan to any person other than a member :

Provided that, with the general or special sanction of the Registrar, a registered society may make loans to another registered society.

(2) Save with the sanction of the Registrar, a society with unlimited liability shall not lend money on the security of moveable property.

(3) The Local Government may, by general or special order, prohibit or restrict the lending of money on mortgage of immoveable property by any registered society or class of registered societies.

Sub-Sec. (1). One of the main points of distinction between a Co-operative Bank and a Joint-Stock Bank is that the former may make a loan only to its member and not to outsiders, whereas in the case of the

latter there is no such restriction. The former receives deposits from outsiders on payment of interest but does not issue loans to them unless they become members. It is very essential that loans should be advanced to members only. It is one of the objects of the Act to encourage thrift and the most effective encouragement to the accumulation of savings is to insist that no advances shall be made except to those who have become members and have made a payment to the funds of the society.

Sub Sec. (2). A society with unlimited liability generally lends money on personal credit or the credit which arises from the individual character and substance of its members and not on real credit or material security; the reason is that the moral aim of co-operation can best be achieved by this method and the society may be of help to the poorest of members who may not have sufficient moveable or immoveable property.

The practical reason underlying this rule is that in Mofussil villages it is very difficult to appraise the value of moveable property and to examine the title deeds of immoveable property to be mortgaged. Hence these restrictions on lending of money by a society on security of moveable and immoveable property.

There are some, however, who do not see the necessity of such restrictions. They point out that "while personal credit was undoubtedly the basis of their transaction, such things as jewels might properly be received as collateral security, that the custom of the society is to regard jewellery as available for this purpose and that if a member is debarred from utilising his material credit to the full in borrowing from his society there will be danger of his using it to borrow from the money-lender."

"While there are practical difficulties in connection with the custody and valuation of jewellery which might be formidable in the case of some village societies, it would be well to make distinctions. When a rural society is located in a town or a large village, with silversmiths available, with a ready market at hand, and with members and officers of intelligence, it may safely be trusted to conduct transactions which might be dangerous in the case of a more *strictly* rustic association. Power has, therefore, been given to the Registrar to allow any society, which he thinks can be safely trusted, to advance money upon jewellery; and he will be able to feel his way in the matter." *Government of India Resolution, Department of Revenue and Agriculture, No. 1-63-3 issued on 29th April 1904.*

Sub-Sec. (3). *Mortgage.* "The question of mortgage is still more difficult. On the one hand, one of the methods in which an involved

cultivator can most effectively be assisted is by enabling him to substitute a mortgage upon reasonable for one upon exorbitant terms ; and a member who is refused the credit to which his property in land fairly entitles him, merely because he is not allowed to hypothecate it to the society, may be driven to the money-lender for a loan which, had it not been for the prohibition, he might have taken from the society with advantage to both parties. On the other hand it is exceedingly inadvisable that the societies should be allowed to lock up their limited capital in a form in which it is not readily available : their most useful form of business will probably be small loans for short periods with prompt recoveries ; and it is above all things desirable that they should keep out of the Law Courts. The final conclusion was that loans upon mortgage should be allowed in the first instance, but that the Local Government should have power to prohibit or restrict them, either generally or in any particular case, if it is found that interference is necessary" (*Ibid.*)

The following remarks of the Maclagan Committee are generally applicable to this section : "It is a central principle of co-operation that security should be personal ; that is, that it should depend primarily on the man and his sureties and not on his property. The idea of personal security, however, implies the power of a member to repay, and this in its turn depends on his capacity as a worker, his honesty of character and the amount of his property. A Co-operative Society differs from an ordinary money-lender in that it takes cognisance of all three factors, while the latter looks at the last only. There is nothing unco-operative in the hypothecation of immoveable property, so long as it is recognised that personal security must be given and that the borrower's property is only a secondary or collateral protection. It follows from this that, when tangible property is accepted as security for a loan, it should be taken in addition to the instrument executed by the borrower and his sureties, and not in place of them ; and we think that the existence of a pledge or mortgage should not absolve societies from taking sureties also or from proceeding, in case of default, against sureties before taking action against the property."

30 A registered society shall receive deposits and loans from persons who are not members only to such extent and under such conditions as may be prescribed by the rules or by-laws.

Restrictions
on borrowing.

As regards borrowing an unfettered power to borrow may prove dangerous to a society. So power has been reserved to Local

Governments to regulate it in such manner as experience may show to be desirable. Hence restrictions are made by rules and by by-laws as to the extent of loans that a society can make. Agricultural produce should stand on precisely the same footing as money for all purposes of subscriptions, deposits, advances, payments and recoveries. Such transactions are within the ordinary powers of the society.

31. Save as provided in sections 29 and 30, the transactions of a registered society with persons other than members shall be subject to such prohibitions and restrictions, if any, as the Local Government may, by rules, prescribe.

Under this section the Local Governments have been given power to impose restrictions other than those laid down in Secs. 29 and 30 with regard to transactions with non-members.

Investment funds. of **32.** (1) A registered society may invest or deposit its funds—

- (a) in the Government Savings Bank, or
- (b) in any of the securities specified in section 20 of the Indian Trusts Act, 1882, or
- (c) in the shares or on the security of any other registered society, or
- (d) with any bank or person carrying on the business of banking, approved for this purpose by the Registrar, or
- (e) in any other mode permitted by the rules.

(2) Any investments or deposits made before the commencement of this Act which would have been valid if this Act had been in force are hereby ratified and confirmed.

This section refers to funds not immediately required in the business of the society and not merely to the reserve fund. The section is permissive, so a primary society is not barred from using its reserve fund in its own business.

cl. 1. (a) Co-operative Societies' accounts are considered as public accounts. The following concessions have been granted—

- (1) Societies may withdraw sums up to Rs. 3,000 from their accounts on three days' notice and up to Rs. 10,000 on ten day's notice at all Post Offices situated at District Head-quarters or at Taluka Head-quarters, where there is also a telegraph office.
- (2) Societies may withdraw sums up to Rs. 3,000 on ten day's notice from all other Post Offices. (*Calvert*).

Sec. 20 of the Indian Trusts Act (Act II of 1882) runs thus : - Where the trust property consists of money and cannot be applied immediately or at an early date to the purposes of the trust, the trustee is bound (subject to any direction contained in the instrument of trust) to invest the money on the following securities, and on no others :—

- (a) in promissory notes, debentures, stock, or other securities of the Government of India, or of the United Kingdom of Great Britain and Ireland ;
- (b) in bonds, debentures, and annuities charged by the Imperial Parliament on the Revenues of India ;
- (c) in stock or debentures of, or shares in Railway or other companies, the interest whereon shall have been guaranteed by the Secretary of State for India in Council ; or in debentures of the Bombay Central Co-operative Bank, Ltd., the interest whereon shall have been guaranteed by the Secretary of State for India in Council*.
- (d) on the first mortgage of immoveable property situated in British India ; provided that the property is not a lease-hold for a term of years and that the value of the property exceeds by one-third, or if consisting of buildings, exceeds by one-half, the mortgage money ; or
- (f) on any other security expressly authorised by the instrument of the trust, by any rule which the High Court may from time to time prescribe in this behalf.

Clauses 1 (b), (c) and (e) were not in the former Act. They are inserted to extend the scope of investment.

Cl. (c) : A registered society may invest its funds in shares of another registered society or may deposit its funds with any third party on the guarantee of another registered society, the latter being bound to make good to the former any loss arising from its so depositing its funds with a third party.

CL. (1) (c) : "In any other mode"—e.g. in the erection of offices and purchase of land therefor. (*Calvert*).

The funds and papers of a Co-operative Society are kept in the Treasury for safe custody under the orders of some of the Local Governments.

33. No part of the funds of a registered society shall be divided by way of bonus or dividend or otherwise among its members :

Funds not to be divided by way of profit.

Provided that after at least one-fourth of the net profits in any year have been carried to a reserve fund, payments from the remainder of such profits and from any profits of past years available for distribution may be made among the members to such extent and under such conditions as may be prescribed by the rules or by-laws :

Provided also that in the case of a society with unlimited liability, no distribution of profits shall be made without the general or special order of the Local Government in this behalf.

Every society, whether on the basis of limited liability or on that of unlimited liability, must carry one-fourth of the net profits to the Reserve fund. In the case of a *limited liability society*, after the one-fourth has been carried to the reserve fund, payments may be made in the shape of dividend, bonus etc. subject to such restrictions as may be laid down in the Government rules or the by-laws.

In the case of an *unlimited liability society* division of the net profits after deducting one-fourth cannot be so made except with the general or special sanction of the Local Government. If there is no such sanction unlimited liability societies must carry their entire profits to the reserve fund after deduction of any payment made for charitable purposes in accordance with sec. 34.

The clause regarding payment of dividend in the case of an unlimited liability society with the sanction of the Local Government has been specially enacted to suit the requirements of a new type of society with unlimited liability in which shares are paid up by instalments spread over a term of years and the shareholders are entitled to profits after expiration of that term. This section allows distribution of profits to such class of societies under the general or special orders of the Local

Government independently of the particular consideration regarding the size of the reserve fund and the rates of interest on loans which were prescribed by the old Act.

The *Reserve Fund* serves three purposes :—(1) If there is any loss or remission the reserve fund will bear it. (2) It creates additional credit in the money market. (3) Lastly, as the reserve fund increases there will be less and less necessity to profit out of interest and so the rate of interest payable on loans issued by the society will be gradually reduced. It may come down to 3 per cent. per annum after years of good management of the funds of the society. The Reserve fund is at all times indivisible among the members, the object being to prevent the members from the temptation of closing the society and thus getting an opportunity of dividing the accumulated funds amongst themselves. It is for this reason that the by-laws provide that when a society is wound up the reserve fund is utilized for such public purpose as the members may decide.

34. Any registered society may, with the sanction of the Registrar, after one-fourth of the net profits in any year has been carried to a reserve fund, contribute an amount not exceeding ten per cent. of the remaining net profits to any charitable purpose, as defined in section 2 of the Charitable Endowments Act, 1890.

Contribution to
charitable purpose.

This provision is new and permission is hereby given to devote a part of the profits of a society to charitable purposes. "Charitable purposes" are thus defined under Act I of 1890 : "In this Act 'charitable purpose' includes relief of the poor, education, medical relief and the advancement of any other object of general public utility, but does not include a purpose which relates exclusively to religious teaching or worship."

The previous sanction of the Registrar is necessary before any payment is made for such charitable purpose. The maximum amount is limited to 10 p. c. of the net profits after $\frac{1}{4}$ has been carried to the Reserve Fund *i. e.* $7\frac{1}{2}$ per cent. of the net profits. Suppose a society makes a net profit of Rs 100 in any year, Rs. 25 will go to the Reserve Fund and 10 p. c of the balance comes to $7\frac{1}{2}$ rupees.

Inspection of affairs.

35. (1) The Registrar may of his own motion and shall on the request of the Collector, or on the application of a majority of the com-

Inquiry by Registrar.

mittee, or of not less than one-third of the members, hold an inquiry or direct some person authorised by him by order in writing in this behalf to hold an inquiry into the constitution, working and financial condition of a registered society.

(2) All officers and members of the society shall furnish such information in regard to the affairs of the society as the Registrar or the person authorised by the Registrar may require.

Enquiry may be made by the Registrar (a) of his own motion, (b) at the request of the Collector, (c) on the application of a majority of the Committee and (d) on the application of not less than $\frac{1}{3}$ of the members.

The Registrar may himself hold the enquiry or may authorise any body in writing. In any case where the Registrar authorises a person the authority must be in writing. It is curious that there is no provision for punishing such officers or members of the society as may fail to produce or wilfully neglect to furnish any information that may be required by the auditor (*cf.* sec. 17 (3) or an enquiring officer (*cf.* sec. 35 (2)). Presumably such cases are left to be dealt with in accordance with the penal laws of the country.

36. (1) The Registrar shall, on the application of a creditor of a registered society, inspect or direct some person authorised by him by order in writing in this behalf to inspect the books of the society :

*Inspection of books
of indebted society.*

Provided that—

- (a) the applicant satisfies the Registrar that the debt is a sum then due, and that he has demanded payment thereof and has not received satisfaction within a reasonable time; and
- (b) the applicant deposits with the Registrar such sum as security for the costs of the proposed inspection as the Registrar may require.

(2) The Registrar shall communicate the results of any such inspection to the creditor.

By this section power is given to a creditor of a registered society to move the Registrar to inspect the books of a society, if the latter fails to meet its obligation to him or pay the money due to him. Under the Company's Act such failure may be followed up by the winding up of the Company.

37. Where an inquiry is held under section 35, or an inspection is made under section 36, the

Costs of inquiry.

Registrar may apportion the costs, or such part of the costs as he may think right, between the society, the members or creditor demanding an inquiry or inspection, and the officers or former officers of the society.

This section provides for the levy of cost for enquiry held under Secs. 35 & 36. It will be noticed that the cost may be recovered either in whole or in part from (a) the society (b) the members demanding the enquiry, (c) creditor demanding the enquiry, (d) the existing officers of the society, (e) former officers of the society. Costs may be recovered from any one of these or may be divided amongst each or all of these as the Registrar may think fit.

38. Any sum awarded by way of costs under section 37 may be recovered, on application to a

Recovery of costs.

Magistrate having jurisdiction in the place where the person from whom the money is claimable actually and voluntarily resides or carries on business, by the distress and sale of any moveable property within the limits of the jurisdiction of such Magistrate belonging to such person.

Dissolution of society.

39. (1) If the Registrar, after an inquiry has been held under section 35 or after an inspection

Dissolution.

has been made under section 36 or on receipt of an application made by three-fourths of the members of a registered society, is of opinion that the society ought to be dissolved, he may cancel the registration of the society.

(2) Any member of a society may, within two months from the date of an order made under sub-section (1), appeal from such order.

(3) Where no appeal is presented within two months from the making of an order cancelling the registration of a society, the order shall take effect on the expiry of that period.

(4) Where an appeal is presented within two months, the order shall not take effect until it is confirmed by the appellate authority.

(5) The authority to which appeals under this section shall lie shall be the Local Government :

Provided that the Local Government may, by notification in the local official *Gazette*, direct that appeals shall lie to such Revenue-authority as may be specified in the notification.

This section empowers the Registrar to cancel the registration of a society under the following conditions : (1) if the enquiry held under sec. 35, or (2) the inspection made under sec. 36 satisfy the Registrar that the society ought to be dissolved, or (3) if any application for dissolution is made by three-fourths of the members of a registered society. (The Registrar may also cancel the registration of a society when the total number is reduced to less than 10 as per next section).

Any member of the society against which an order of dissolution has been passed may appeal to the Local Government or such Revenue authorities as may be specified in the notification of the Local Government published in the local official *Gazette*. The appeal is to be presented within two months of the issue of the order of cancellation which takes effect from the date of the final order of the appellate authority.

The law does not give any power to the creditor of a society to appeal against an order of dissolution.

"The causes put forward for the failure of societies are very various and include a want of due supervision, indiscreet loans, contumacy of borrowers, unpunctuality of repayments, the restriction of loans to a few individuals, dishonesty or incompetency of society-officials, bad selection of members, the extension of a society over too large an area, con-

ceasing of old debts, faulty constitution, internal dissensions, insufficient funds or membership, the preponderating influence of one member, and general lack of interest by members in the affairs of the society."—
(*MacLagan Committee's Report, p. 53.*)

40. Where it is a condition of the registration of a society that it should consist of at least ten members, the Registrar may, by order in Writing, cancel the registration of the society if at any time it is proved to his satisfaction that the number of the members has been reduced to less than ten.

Provision is made under this section for maintaining after registration the minimum number of members required for a society which applies for registration. There is no similar provision for maintaining other qualifications as regards residence, caste *etc.* which are prescribed for credit societies in sec. 6 (a) and (b). It is intended that the Registrar should, in sanctioning the proposed by-laws of a credit society, satisfy himself that proper residential and class qualifications are rendered obligatory for future members ; but it is contemplated that the qualifications laid down should, where necessary, be subject to alteration by simple amendment of by-laws sanctioned by the Registrar, whereas if the law had prescribed the rigid application of the qualifications originally prescribed to future members, no alteration could have been made in these qualifications without the dissolution and reconstitution of the society.

41. Where the registration of a society is cancelled, the society shall cease to exist as a corporate body—

(a) in the case of cancellation in accordance with the provisions of section 39, from the date the order of cancellation takes effect ;

(b) in the case of cancellation in accordance with the provisions of section 40, from the date of the order.

42. (1) Where the registration of a society is cancelled under section 39 or section 40, the Registrar may appoint a competent person to be liquidator of the society.

(3) A liquidator appointed under sub-section (1) shall have power—

- (a) to institute and defend suits and other legal proceedings on behalf of the society by his name of office ;
- (b) to determine the contribution to be made by the members and past members of the society respectively to the assets of the society ;
- (c) to investigate all claims against the society and, subject to the provisions of this Act, to decide questions of priority arising between claimants ;
- (d) to determine by what persons and in what proportions the costs of the liquidation are to be borne ; and
- (e) to give such directions in regard to the collection and distribution of the assets of the society, as may appear to him to be necessary for winding up the affairs of the society.

(3) Subject to any rules, a liquidator appointed under this section shall, in so far as such powers are necessary for carrying out the purposes of this section, have power to summon and enforce the attendance of witnesses and to compel the production of documents by the same means and (so far as may be) in the same manner as is provided in the case of a Civil Court, under the Code of Civil Procedure, 1908.

(4) Where an appeal from any order made by a liquidator under this section is provided for by the rules, it shall lie to the Court of the District Judge.

(5) Orders made under this section shall, on application, be enforced as follows :—

- (a) when made by a liquidator, by any Civil Court having local jurisdiction in the same manner as a decree of such Court ;

(b) when made by the Court of the District Judge on appeal, in the same manner as a decree of such Court made in any suit pending therein.

(6) Save in so far as is hereinbefore expressly provided, no Civil Court shall have any jurisdiction in respect of any matter connected with the dissolution of a registered society under this Act.

On cancellation of a society the Registrar may appoint a competent person as liquidator to wind up the affairs of the society. The section defines the powers and duties of the liquidator. Certain portion of the C. P. Code is applicable in proceedings before the liquidator for enforcing attendance of witnesses and production of documents. Orders of the liquidator are treated as a decree and are executed as such under the provisions of C. P. Code by a Civil Court having local jurisdiction. Appeal from order of the Liquidator lies to the Court of the District Judge having local jurisdiction, if it is so provided for by the rules and the order passed by him is executed as a decree passed by such Court in a suit before him.

The section of the Indian Contract Act relating to Dissolution of Partnership Contract does not apply to a dissolution of a Co-operative Society.

Rules.

43. (1) The Local Government may, for the whole or any part of the Province and for any registered society or class of such societies, make

Rules.

rules to carry out the purposes of this Act.

(2) In particular and without prejudice to the generality of the foregoing power, such rules may—

(a) subject to the provisions of section 5, prescribe the maximum number of shares or portion of the capital of a society which may be held by a member ;

(b) prescribe the forms to be used and the conditions to be complied with in the making of applications for the registration of a society and the procedure in the matter of such applications ;

- (c) prescribe the matters in respect of which a society may or shall make by-laws and for the procedure to be followed in making, altering, and abrogating by-laws, and the conditions to be satisfied prior to such making, alteration, or abrogation ;
- (d) prescribe the conditions to be complied with by persons applying for admission or admitted as members, and provide for the election and admission of members, and the payment to be made and the interests to be acquired before the exercise of the right of membership ;
- (e) regulate the manner in which funds may be raised by means of shares or debentures or otherwise ;
- (f) provide for general meetings of the members and for the procedure at such meetings and the powers to be exercised by such meetings ;
- (g) provide for the appointment, suspension, and removal of the members of the committee and other officers, and for the procedure at meetings of the committee, and for the powers to be exercised and the duties to be performed by the committee and other officers ;
- (h) prescribe the accounts and books to be kept by a society and provide for the audit of such accounts and the charges, if any, to be made for such audit, and for the periodical publication of a balance sheet showing the assets and liabilities of a society ;
- (i) prescribe the returns to be submitted by a society to the Registrar and provide for the persons by whom and the form in which such returns shall be submitted ; ;

- (j) provide for the persons by whom and the form in which copies of entries in books of societies may be certified ;
- (k) provide for the formation and maintenance of a register of members and, where the liability of the members is limited by shares, of a register of shares ;
- (l) provide that any dispute touching the business of a society between members or past members of the society or persons claiming through a member or past member or between a member or past member or persons so claiming and the committee or any officer shall be referred to the Registrar for decision or, if he so directs, to arbitration, and prescribe the mode of appointing an arbitrator or arbitrators and the procedure to be followed in proceedings before the Registrar or such arbitrator or arbitrators, and the enforcement of the decisions of the Registrar or the awards of arbitrators ;
- (m) provide for the withdrawal and expulsion of members and for the payments, if any, to be made to members who withdraw or are expelled and for the liabilities of past members ;
- (n) provide for the mode in which the value of a deceased member's interest shall be ascertained, and for the nomination of a person to whom such interest may be paid or transferred ;
- (o) prescribe the payments to be made and the conditions to be complied with by members applying for loans, the period for which loans may be made, and the amount which may be lent, to an individual member ;

- (p) provide for the formation and maintenance of reserve funds, and the objects to which such funds may be applied, and for the investment of any funds under the control of the society ;
 - (q) prescribe the extent to which a society may limit the number of its members ;
 - (r) prescribe the conditions under which profits may be distributed to the members of a society with unlimited liability and the maximum rate of dividend which may be paid by societies ;
 - (s) subject to the provisions of section 39, determine in what cases an appeal shall lie from the orders of the Registrar and prescribe the procedure to be followed in presenting and disposing of such appeals ; and
 - (t) prescribe the procedure to be followed by a liquidator appointed under section 42, and the cases in which an appeal shall lie from the order of such liquidator.
- (3) The Local Government may delegate, subject to such conditions, if any, as it thinks fit, all or any of its powers to make rules under this section to any authority specified in the order of delegation.

(4) The power to make rules conferred by this section is subject to the condition of the rules being made after previous publication.

(5) All rules made under this section shall be published in the local official *Gazette* and on such publication shall have effect as if enacted in this Act.

Sub-sec. : (1) (g) Rules framed under this sub-section are intended to prevent co-operative societies from becoming close corporations for the benefit of a few individuals.

Sub-sec. (1) (r). Under this clause the maximum rate of dividend is prescribed to prevent profits from being diverted to the benefit of share-holders and to cheapen the services to be performed by the society.

For other details see Rules framed by the Local Governments under this section.

Miscellaneous.

44. (1) All sums due from a registered society or from an officer or member or past member of a registered society as such to the Government, including any costs awarded to the Government under section 37, may be recovered in the same manner as arrears of land-revenue.

Recovery of sums due to Government.

(2) Sums due from a registered society to Government and recoverable under sub-section (1) may be recovered, firstly, from the property of the society ; secondly, in the case of a society of which the liability of the members is limited, from the members subject to the limit of their liability ; and, thirdly in the case of other societies, from the members.

See Act XI of 1859 and Act I of 1895. The provision of the latter Act apparently applies to the realisation of the sums mentioned in the section. The amount due to Government is a public demand. Hence the sums referred to in sub-sec. (1) are to be realized under the Public Demands Recovery Act, (Act I of 1895.) The procedure is as follows :— Under sec. 6 of Act I of 1895 the Certificate officer makes a certificate of the amount of the sums remaining unpaid, which has the force of a decree of a Civil Court. Under sec. 10 of the said Act the judgment-debtor is served with a notice and a copy of such certificate. After service of such notice, such certificate shall bind all immoveable property as if such property has been attached. The judgment-debtor can file an objection to the certificate under Sec. 12 denying his liability within 30 days from the service of such notice, or where no such notice has been duly received, within 30 days from execution of any process for enforcing such certificate. The objection is then heard, under Sec. 32 (a). An appeal lies from any original order of a Certificate officer other than that of the District Collector to the District Collector. An appeal from the order of the District Collector lies to the Commissioner within 30 days from the decision of the District Collector.

Lastly, a suit lies in the Civil Court for the cancellation of the certificate within 6 months from the date of service of notice under Sec. 10, from the date of determination of objection under Sec. 12 or from the date of the decision of appeal under Sec. 32 (a).

The certificate aforesaid being treated as a decree of a Civil Court is executed as a decree under the Civil Procedure Code.

45. Notwithstanding anything contained in this Act, Power to exempt societies from conditions as to registration. the Local Government may, by special order in each case and subject to such conditions, if any, as it may impose, exempt any society from any of the requirements of this Act as to registration.

46. The Local Government may, by general or special Power to exempt registered societies from provisions of the Act. order, exempt any registered society from any of the provisions of this Act or may direct that such provisions shall apply to such society with such modifications as may be specified in the order.

It was found impossible by this Act to provide for all eventualities and that, however generally suitable the specific provisions of the Act might be, there might well be special circumstances to which they were unsuited. Hence this section was enacted.

In the body of the Act have been included those provisions which it is believed will be suitable to the types of Co-operative Societies that are most likely to come into existence in this country, and these provisions will constitute the normal law which will apply of its own force to these societies in general. But the Local Government will have an absolutely free hand to depart from or vary them, on condition only that it does so by special order in each case and after full consideration of the circumstances that justify the departure. Of course it is intended that this power should be exercised only on behalf of societies the actions of which are consonant with the objects which the Act is intended to promote and with their constitution and objects. In the second place, it was desirable to confer on them special privileges and facilities, in order to encourage their formation and assist their operation. And thirdly, since they were to enjoy exemptions from the general law and facilities of a special nature it was necessary to take such precautions as might be needed in order to prevent speculators and capitalists from availing themselves, under colorable pretexts, of privileges which were not intended for them.

47. (1) No person other than a registered society shall Prohibition of the use of the word "co-operative." trade or carry on business under any name or title of which the word "co-operative" is part without the sanction of the Local Government :

Provided that nothing in this section shall apply to the use by any person or his successor in interest of any name or title under which he traded or carried on business at the date on which this Act comes into operation.

(2) Whoever contravenes the provisions of this section shall be punishable with fine which may extend to fifty rupees and in the case of a continuing offence with further fine of five rupees for each day on which the offence is continued after conviction therefor.

Except this section no other penal section is provided for carrying out the provisions of the Act.

Indian Companies Act, 1882, not to apply.

48. The provisions of the Indian Companies Act, 1882, shall not apply to registered societies.

The reason for the non-applicability of the Indian Companies Act are thus set forth in the *Government of India Resolution : Department of Revenue & Agriculture, dated the 20th April, 1904*. "The Companies Act at present in force (Act VI of 1882) contains 256 sections, and its elaborate provisions, however necessary in the combinations of capital on a large scale, are wholly unsuited to societies of the kind it is now desired to encourage. The first thing to be done, therefore, was to take such societies out of the operation of the general law on the subject, and to substitute provisions specially adapted to their constitution and objects. In the second place, it was desirable to confer upon them special privileges and facilities, in order to encourage their formation and assist their operation. And, therefore, since they were to enjoy exemptions from the general law and facilities of a special nature, it was necessary to take such precautions as might be needed in order to prevent speculators and capitalists from availing themselves, under colourable pretences, of privileges which were not intended for them."

49 Every society now existing which has been registered under the Co-operative Credit Societies Act, 1904, shall be deemed to be registered under this Act, and its by-laws shall, so far as the same are not inconsistent with the express provisions of this Act, continue in force until altered or rescinded.

Saving of existing societies.

Repeal.

50. The Co-operative Credit Societies Act, 1904, is hereby repealed.

APPENDIX I.

*Recent (1920-21) statistics relating to the Co-operative
Movement in India.*

PROVINCE.	Total number of Societies.	Total number of members of primary societies.	Total working capital.
Madras ...	6,287 (14'9)*	395,284 (9'3)†	4,90,90,000 (19 as.)‡
Bombay ...	2,956 (15'3)	265,629 (13'7)	3,34,57,000 (28 as.)
Bengal ...	6,366 (13'6)	232,001 (5'0)	3,33,28,000 (11 as.)
Bihar & Orissa...	3,580 (10'5)	107,514 (3'2)	1,22,94,000 (6 as.)
United Provinces	4,493 (9'9)	110,620 (2'4)	1,29,58,000 (5 as.)
Punjab ...	8 453 (40'8)	230,311 (11'1)	3,60,54,000 (28 as.)
Burma ...	4,888 (41'8)	125,318 (10'7)	3,01,90,000 (42 as.)
C. P. & Berar ...	5,011 (36'1)	79,638 (5'7)	2,99,50,000 (34 as.)
Assam ...	560 (7'4)	28,084 (3'7)	16,84,000 (4 as.)
Coorg ...	142 (71'0)	6,565 (40'0)	2,12,000 (21 as.)
Ajmer-Merwara	522 (104'4)	17'296 (34'9)	42,47,000 (137 as.)
Hyderabad Ad- ministered Area	5 (5'0)	205 (1'4)	30,000 (3 as.)
Delhi ...	103 (20'6)	2,011 (4'1)	95,000 (3 as.)
Total (British India) ...	43,366 (17'9)	1,600,476 (6'6)	24,40,89,000 (16 as.)
Mysore ...	1,500 (25'0)	89,757 (15'0)	78,19,000 (21 as.)
Baroda ...	509 (24'2)	16,932 (8'0)	25,71,000 (19 as.)
Hyderabad ...	1,437 (11'5)	35,293 (2'8)	86,44,000 (11 as.)
Bhopal ...	691 (98'4)	10,446 (15'1)	11,70,000 (27 as.)
Total (India)...	47,503 (18'0)	1,752,904 (6'6)	26,42,93,000 (16 as.)

* Showing number of societies per 100,000 inhabitants.

† Showing number of members of primary societies per 1000 inhabitants.

‡ Showing number of annas per head of population.

APPENDIX II.

SUBJECTS IN WHICH INSTRUCTION IS OFFERED BY THE CO-OPERATIVE COLLEGE, MANCHESTER.

Lectures are given, as required, on the following subjects :—

CO-OPERATION.

Section I.

History and Principles of Co-operation.
Economics of Co-operation,
Co-operative Problems.
Co-operation and Social Problems.
Co-operative Control of Raw Materials.
Co-operative Finance.
Co-operation in Agriculture.
Co-operative Production.
International Co-operation.
Co-operation in Ireland.
Co-operation in Scotland.
Co-operation in Denmark.
Co-operative Statistics and Statistical Methods.

HISTORY.

Section II.

General History
Constitutional History.
Industrial History, 1066-1910.
The Industrial Revolution.
Economics and Industrial History of the Nineteenth Century.
Reform Movement of the Nineteenth Century.

ECONOMICS.

Section III.

Economics of Industry.
Money, Prices, and Banking.
International Trade and Foreign Exchanges.
History and Principles of Taxation.
Public Finance.
Economic Theories.
Social Economics.
Wages.

Economic and Social Problems.
Trade Unionism.
The Organisation of Industry and Commerce.
The Welfare of the Group.
Women in Industry.

CITIZENSHIP, SOCIOLOGY, AND ETHICS.

Sections IV & V.

Citizenship.
Local Government.
Central Government.
Political Science.
Sociology.
Ethics.

EDUCATION.

Section VI.

History, Theory and Organisation of Education.
The Art of Teaching.
Co-operative Education : Its History and Organisation.

PROPAGANDA AND PUBLIC SPEAKING.

Section VII.

The Organisation of Propaganda.
Elocution and Public Speaking.

EMERGENCY AND SPECIAL SUBJECTS.

Section VIII.

The Co-operative Movement and Taxation.

TECHNICAL SUBJECTS.

Section IX.

Co-operative Management.
Co-operative Book-keeping and Accountancy.
Co-operative Secretaryship.
Co-operative Auditing.
Co-operative Administration (covering the work of Co-operative Committees).
Commodities of Commerce.
Economics of Business Organisation.
Modern Business Methods and Office Organisation.
Statistics and Statistical Methods.
Commercial Law.
Co-operative Law.
Advertising.

APPENDIX III.

GOVERNMENT OF INDIA, DEPARTMENT OF REVENUE AND AGRICULTURE.

Circular No. 13-C.

FROM

THE HONOURABLE MR. E. D. MACLAGAN, C. S. I., I. C. S.

Secretary to the Government of India.

TO

ALL LOCAL GOVERNMENTS AND ADMINISTRATION,

Calcutta, the 9th March, 1912.

Sir,

I am directed to invite attention to the new Co-operative Societies Act (No. 2 of 1912), which has been published in to-day's *Gazette of India*. The Act follows the general lines of its predecessor—Act X of 1904.—but there are, in addition to alterations of form, certain changes of substance which have been introduced in the new law and as the subject is of a somewhat technical character it will probably be a convenience for Local Governments and Registrars under the Act to have before them a brief note of the chief alterations effected. The following observations are therefore circulated, but though they are offered for the assistance of Local Governments, they are not intended to take the place in any sense of the ordinary interpretation of statutes or to encroach in any way on the discretionary powers given by the Act to the Local Governments and other authorities.

2. It will, in the first place, be observed that the Act now applies not only to Credit Societies but also to Co-operative Associations organized for purposes of distribution, production, cattle insurance and the like, and this constitutes the chief change introduced by the new law. As certain privileges are accorded by the Act to Co-operative Societies which are not enjoyed by ordinary associations and Joint Stock Companies, it might, in some respects, have been convenient to define explicitly the class of society to which the Act was intended to apply ; but it was decided that in view of the present state of experience regarding such societies in India, it would be advisable to follow the

principle adopted in the Act of 1904 by which the provisions of the law were for the present left as elastic and as simple as possible. While avoiding, however, any precise definition of a Co-operative Society, the Act is not without indication of the class of society for which its provisions are primarily intended. The preamble, for instance, and the restrictions imposed by section 5 on the extent of shareholding permissible to an individual member, will show the class of persons whom it is intended to benefit, and Registrars (whose first duty it is to make themselves acquainted with the principles of co-operation) will also receive some guidance from the wording of section 4 which requires societies to be based on co-operative principles. When it is desired to ensure absolute adherence to such principles in their purest form, it will be open to Local Governments under section 43 (r) to prescribe a maximum rate of dividend and thus prevent profits which should be employed in cheapening the service performed by the society from being diverted to the benefit of shareholders and it will also be possible for rules to be laid down under section 43 (q) for preventing such societies from becoming close corporations for the benefit of a few individuals. It will be observed that the requirements regarding proximity of residence or community of race or occupation which apply under section 6 to credit societies are not prescribed as an essential for societies other than those for credit, but there is nothing to prevent Registrar from insisting on similar qualifications in the case of all societies, and until further experience has been gained it will probably be well to adhere, as far as possible, to these requirements. So too, as regards transactions with members outside the society, the Act lays down no prohibition, but under section 31 it will be open to Local Governments to impose restrictions, and in most cases it will probably, for the present at any rate, be wise for them to do so. Many of the non-credit societies will be with limited liability, and the Act has given considerable latitude in the management of such limited societies. The restriction placed by the old law on the transfer of shares, for instance, has in the case of limited societies, been removed by section 14 of the new Act, and under section 22 a duly qualified successor of a deceased member may, in the case of a limited society, claim the transfer to himself of the share of the deceased. In these and in other respects the bulk of the non-credit co-operative societies recognized by the new law are placed on a footing similar to that of joint stock companies, and it will be necessary in practice to see that the Act is not utilised for the benefit of societies which are not really of a co-operative character. Precautions in this

direction can be taken in dealing with proposed bye-laws, and it will, for example, be possible to require a society with share capital to provide in its bye-laws that shares shall not be transferable, or shall be transferable to such persons only as fulfil certain requirements, such as e.g. that the persons shall be duly elected as members.

3. The distinction previously prescribed between rural and urban societies has now been abolished, but the new law makes provision for three kinds of society not specifically mentioned in the old Act :

- (a) In the first place it recognises the societies known as unions or central banking unions which are entirely composed of other societies. Joint societies of this character must under the first proviso to section 4 be ordinarily of limited liability, but they are not subject to the restrictions laid down in section 5 as regards the limit of shares to be held by each member nor to the requirements in the way of numbers or residence, etc., which are prescribed in section 6.
- (b) The Act further recognises the existence of such central societies as are composed partly of other societies and partly of individuals, and although the shares of individual members are in such societies restricted by section 5, they stand in respect of sections 4 and 6 on the same footing as the unions described under (a) above. (As the requirements of section 6 regarding the minimum number of members do not apply in either case, there is nothing in the wording of the Act to prevent two societies or one society and one individual from applying for registration, but although no definite number of applicants has been prescribed in such cases it may be presumed that Registrars will exercise their discretion by refusing to register applications which do not represent a reasonable degree of real co-operation).
- (c) A further class of society now definitely recognised is a "Central Bank" or other central society the members of which are individuals, but the main object of which is to benefit not its own members, but other societies of a co-operative character (section 4), and it is considered reasonable that such a society though formed mainly on joint stock lines should obtain as far as possible the privileges conferred by the act on co-operative concerns.

4. The new law maintains the general principle that a society with unlimited liability should not distribute profit among its members, but, since in several Provinces considerable success has been attained by a

type of society with unlimited liability in which shares are paid up by instalments spread over a term of years and the shareholders are entitled to profits after the expiration of that term, it allows distribution of profits under the general or special orders of the Local Government (section 33) independently of the particular considerations regarding the size of the reserve fund and the rates of interest on loans which were prescribed by the old Act. It is not contemplated at present that any such permission will ordinarily be granted to societies other than those of the above-mentioned type.

5. It will further be seen that while provision is made in section 40 for maintaining after registration the minimum number of members required for a society which applies for registration, there is no similar provision for maintaining the other qualifications as regards residence, caste, etc., which are prescribed for credit societies in section 6 (a) and (b). It is intended that the Registrar should, in sanctioning the proposed bye-laws of a credit society, satisfy himself that proper residential and class qualifications are rendered obligatory for future members; but it is contemplated that the qualifications laid down should, where necessary, be subject to alteration by a simple amendment of bye-laws sanctioned by the Registrar; whereas if the law had prescribed the rigid application of the qualifications originally prescribed to future members, no alteration could have been made in these qualifications without the dissolution and reconstitution of the society.

6. Of the further changes made in the Act the more important are the following :—

- (i) The necessity for submitting proposed bye-laws before registration and for obtaining registration of amendments in bye-laws (sections 8 and 11).
- (ii) The permission allowed to the Local Governments to confer the powers of a Registrar on persons other than the Registrars (section 3) and to the Registrars to depute persons to conduct the work of audit enquiry and inspection (sections 17, 35 and 36); the power granted to a Collector to depute persons to inspect records (section 21 of the old Act, being at the same time withdrawn).
- (iii) The special evidential value attached to a certificate of registration (section 10) and registers or lists of members or shares (section 25).
- (iv) The extension of the period of the prior claims of a society on agricultural produce from one year to eighteen months [section

19 (a)] and the inclusion of such claims on fodder and machinery supplied and on articles manufactured from materials supplied [section 19 (b)].

- (v) The omission of the provision in section 21 of the old Act which prohibited the making of any charge for audit. (It may be noted that although the prohibition has been withdrawn the Government of India do not at present desire that any charges should be made except in the case of societies where professional audit of a fairly elaborate character is found necessary).
- (vi) The exemption under section 27 of share transfers and similar documents from compulsory registration.
- (vii) The expansion of the field for the investment or deposit of funds (section 32).
- (viii) The permission given by section 34 to devote a part of the profits of a society to charitable (including educational) purposes.
- (ix) The power given to a creditor to move the Registrar to inspect the books of a society (section 36).
- (x) The power given to the Local Governments to prescribe returns [section 43 (2) (i)] and the omission of the provision [section 27 (2) (a) of the old Act] expressly empowering Local Governments to prescribe the rate of interest on deposits.
- (xi) The permission given to Local Governments to delegate the power of hearing appeals against orders of dissolution (section 39) and of making rules [section 43 (3)].
- (xii) The prohibition of the use of the word "Co-operative" in the title of future associations not registered under the Act (section 47).

7. In conclusion, I am to notice that though applicants for registration must be over the age of 18 years, the maintenance of this qualification among members after registration is not expressly provided for and the question of the relations of a society to the minor heirs of deceased members is, subject to the provisions of section 22, left to the operation of the ordinary law. At the same time, no general alteration has been made in the previous provisions regarding the recovery of sums due to societies, and this will remain as before subject to the instructions laid down by this department on the 29th May, 1906. And except in section 47 no penal sanction is provided for carrying out the provisions of the Act, such sanction being considered at the present stage unnecessary.

APPENDIX IV.

THE GROWTH OF CO-OPERATION IN INDIA

GOVERNMENT OF INDIA.

Resolution No. 12-287-1, dated Simla, the 17th June 1914.

"If the system of co-operation can be introduced and utilised to the full I foresee a great and glorious future for the agricultural interests of this country."—His Majesty, the King Emperor, 13th December 1911.

Introductory.—Ten years ago there was nothing beyond a few scattered experiments to indicate the presence of the co-operative movement in India. To-day there are over 12,000 societies with nearly 600,000 members and with a working capital of over five crores of rupees, and co-operation has firmly established itself as a powerful factor in the material and moral welfare of the people. A stage, therefore, appears to have been reached at which an endeavour may suitably be made 'to review the manner in which this remarkable development has proceeded, and the main principles which have guided it in the past, and should guide it in the future. In this Resolution an attempt will be made to trace the growth of co-operation in India, to indicate the benefits—economic, social, and educational—which the movement, if wisely directed, may be expected to produce, as well as the dangers to be avoided, to describe the main features of the various types of society, to discuss a number of questions of administrative detail, to examine to what extent State aid has been and should be rendered, and finally, to consider how far, in the every day work of administration, district officers should keep in touch with the movement and utilize this new element in the national life.

2. *Co-operation : credit and other.*—Economic co-operation is based on the fact that when men are joined together for a common object credit, which was denied to the individual, becomes accessible, and advantages beyond the reach of any member of the group working independently are secured. This principle finds its expression in two distinct methods of association, one of which underlies the system of Co-operative Credit, while the other is the foundation of Co-operative Purchase, Sale, Produc-

tion and insurance. In the former several persons combine to furnish a collective guarantee by which they are enabled to secure money at lower rates of interest than they could obtain individually. In the latter a similar combination is made in order to effect economies in the preparation or disposal of produce. The former method of co-operation is generally the simpler and more easily managed ; it provides the primary requisites for progress, and it is in a sense the foundation of the other, both in India and in other countries.

To form a credit society in its simplest form all that is legally necessary is for ten or more persons to secure registration. The society on the joint security of its members borrows money, and the money so obtained is lent to such members as are in need of loans. When joint security is offered money can be borrowed by the society at a comparatively low rate of interest, and although the interest charged to members who borrow from the society is fixed at a slightly higher rate it still remains perceptively lower than that charged in the open market. A society formed for the sale of produce would collect the produce at one place, convey it to market in the most economical manner and obtain better terms by selling to large dealers and not to middlemen. Similarly a society, formed for the purchase of seed would combine the contributions of its members, buy seed at wholesale prices and distribute it to the members at cheap rates.

3. *Origin in India.* *Act of 1901.*—Co-operative credit, as an organised system, had its origin in Germany about the middle of the last century. Its beginnings were of the humblest description. Two men, Raiffeisen and Schulze-Delitzsch, started independently about the same time to work out a system of credit on co-operative lines, the former in the main for poor peasants, the latter for artisans and small tradesmen. For a long time progress was slow, but between 1880 and 1890 the movement may be said to have established itself, and from that time forward there has been marked and continuous development. Co-operative credit has, for reasons which need not be detailed here, hitherto failed to gain more than a very small footing in Great Britain, but in Ireland, and in most of the principal countries of Europe, it has now obtained an established position as one of the chief elements in the agricultural and industrial welfare of the people. Proposals have from time to time been made by Sir William Wedderburn and others, for the establishment in India of banks to supply capital to agriculturists and to free them from the indebtedness caused by usurious rates of interest, but to solve the problem of agricultural indebtedness something more than the creation

of cheap and unrestricted credit was required, and, although the possibility of extending the system of co-operative credit to this country had previously been considered, it was not until 1895, when Sir Frederick Nicholson of the Indian Civil Service submitted to the Madras Government a valuable and comprehensive report on the subject, that a real beginning was made. In this report he described the systems of co-operation in force in European countries and examined their applicability to Indian conditions. While it was under consideration, a volume entitled 'People's Banks for Northern India' was published by Mr. Dupernex, I.C.S., and a few small experimental societies were instituted by Mr. Dupernex and other officers in different parts of India. So long, however, as the transactions of these societies were governed by the complicated provisions of the Companies' Act, it was impossible to expect much progress, and a Committee was therefore appointed by Lord Curzon in 1901, under the presidency of Sir Edward Law, to report on the action necessary for the establishment of co-operative societies on a proper footing. The Committee had the benefit of the advice of Mr. Henry Wolff, the leading authority in England on the subject, and as a result of its recommendations a Bill was introduced in the Legislative Council by Sir Denzil Ibbetson and was subsequently passed as Act X of 1904.

4. *Act of 1912.*—Under the Act of 1904, a simplified form of procedure was prescribed for credit societies and their status was defined. Societies were divided into two classes—'rural' and 'urban',—separate conditions being prescribed in the case of each class in regard to matters such as members' liability and the application of profits, and the business procedure of societies was freed from the elaboration of the Companies' Act. Certain duties were prescribed for societies and their members, and power was given to the Government to exempt them in certain particulars from the operations of the ordinary law. Registrars with powers under the Act, were appointed in each province, and in two years 800 societies had sprung into existence. The number steadily increased from year to year, and before long the provisions of the law—which were necessarily of an experimental nature only—were found to be in some respects faulty, and in others inadequate. The distinction in treatment between rural and urban societies, for instance, was found in practice to be unnecessary. There was, moreover, no formal recognition of joint or central societies formed of other societies, nor did the Act expressly cover any form of co-operation other than co-operative credit. To remedy these and other minor defects which experience had brought to light, a

new Act was passed in 1912 which dealt with co-operation of all kinds, and it is by this Act (No. II of 1912) that co-operation is now regulated in this country.

5. *Rate of progress.*—The number of societies (including those in the Native States of Mysore and Baroda) has now, according to the latest returns available, risen to 12,324 (of which all but 176 are credit societies) and the number of members to 573,536. There has been a brisk demand for the creation of new societies, and considerable pressure has been put on Registrars to register societies at a more rapid rate than is represented by these figures. They have been flooded with applications for enrolment, and, even where applications were not received, nothing would have been easier than to create new societies, as it were, by beat of drum. The principle on which they have acted in spreading the gospel of co-operation has been to make sure before accepting converts that the matter has been well considered and the new doctrine understood, as one good society is, in the end, better than any number of unsuccessful ones. The failures that have occurred in the cases when this course was not followed, have fully justified the caution with which the numbers have been increased. It is sometimes urged that the movement only touches an infinitesimal proportion of the population, and that, if co-operation is materially to affect the condition of the masses, more rapid progress should be made. But it must be borne in mind that the benefits of the societies are by no means confined to registered members. If 600,000 persons are members, the numbers directly affected, including their families, can scarcely be less than 3 millions, and if we take also into account the general reduction of the rate of interest and similar benefits to outsiders which have followed the spread of the movement, it can fairly be claimed that co-operation has already brought relief to some six millions of people—a very gratifying and indeed phenomenal outcome of the work of ten years. It is true that there is still only one agricultural co-operative society in India for every 20,000 of the population engaged in agriculture, whereas in Italy, for instance, there are 18 and in Germany 52. But the movement in India is only at its beginning, and the progress made in the first stage has been unequalled in any other country. In Germany, the pioneer of co-operative credit, the initial difficulties were immense, and 30 societies represented the fruit of 30 years' effort, while even now, according to the best information available, the number of societies in Germany after another 30 years does not exceed 17000. In Austria after ten years there were 15 societies and now, after some 60 years, about 12,000. In Russia there are said to be 14000, in France :

4,000, and in Japan 7,000. But, although such rapid progress has been made, the movement, fostered as it has been by the resourceful guidance of the Registrars, has developed naturally and on sound lines, and the aim kept steadily in view has been not the multiplication of societies but rather the restriction of the movement within safe bounds. In the future, now that the first stage has been passed, it is possible that, with the help of federation and increased un-official supervision, the rate of progress may in places safely increase, but the caution and restraint shown in the past is in every way a matter for congratulation.

6. *Economic benefits.*—The aim of those who form themselves into societies is primarily economic. Their object is to obtain money or the other necessities of production at cheaper rates, or to sell their produce at higher prices than those which prevail in the market to which they would individually resort. If this object can be attained over a considerable portion of India, the result will be of immense economic value. It has, for instance, been calculated that in interest alone the agriculturists of India, by taking loans from co-operative credit societies instead of from the village money-lenders, are even now saving themselves from an absolutely unnecessary burden of at least 20 lakhs of rupees per annum, and there is no reason why in a few years this figure should not multiply itself several times over. The mere saving in interest charges is, however, a part only of the benefits received. With the progress of co-operation and with credit democratised money that has lain rusting in hoards has been produced and placed in deposit; money that would otherwise have lain idle has found a serviceable form of investment; capital that would otherwise have been inaccessible has come into the hands of the agriculturists; old debts have been paid off and old mortgages redeemed, cases being reported in which the debts and mortgages not of individuals only, but of whole villages have been cleared off. With freedom from debt and with access to capital on reasonable terms, the agriculturist is enabled to develop his means with better heart and increased resources while the production of hoarded money and its application to the development of the country, coupled with an improvement in the economic position of the people, must result in an increase in their purchasing power and in the expansion of external and internal trade.

7. *Improvement in agriculture.*—In no direction is co-operation more full of promise than in the improvement of agriculture. From the first it has enabled cultivators to grapple with the difficulties caused by bad finance and an undeveloped system of rural economy, but during the last two or three years it has begun to show how it can assist them in

winning a better living from a reluctant soil and treacherous seasons. In time of need, Government has never been backward in helping the peasant. Loans for the purchase of seed and cattle have been generously given ; lenient treatment has hastened recovery from seasonal disasters ; and by the greatest gift of all—irrigation—the liability to such disasters has been prevented over large areas. But more helpful than any of these gifts is the teaching which the Agricultural Department is setting before the people. The field, however, is so wide, and the skilled workers so few, that mere departmental efforts can never suffice to bring home to every cultivator the benefits that agricultural science offers. It is here that co-operation has stepped in. It has, in some provinces, provided the means whereby, as each improved variety is perfected and made ready for use, seed can be conveyed from the Government farm to every village over large areas and can be multiplied a thousandfold ; it has enabled the purity of the seed to be maintained, and the best price to be secured for the produce ; it has placed within reach of the cultivator cheap manure and implements tested and approved by experts ; it has supplied to cattle breeders bulls of superior strains for the improvement of the village herds ; and it has provided the means by which useful information can be disseminated.

The association of co-operation with agricultural improvements may assume different forms. In one place the co-operative society may perform the functions of an agricultural association ; in another agricultural societies and unions may have a separate existence, but may work in the closest touch with the co-operative movement. But wherever agriculture and co-operation have experienced the assistance which each can derive from association with the other, they are fast developing a truly organic connection and there can be little doubt that before many years this will be the case throughout India. It has indeed been stated by outside observers that the efforts of these two departments have made a deeper impression on the life of the people than any of the other measures which Government is engaged in promoting.

8. *Educational value.*—But these direct economic improvements are not the only benefit which co-operation is conferring on the country. Co-operation has been, in the widest sense of the term, education, both intellectual and moral. When men are associated for business purposes, they feel the need of education. There are tangible reasons for learning to keep accounts, to sign promissory notes, to read pass-books and receipts, and knowledge of this kind must lessen the chances of fraud while members who are able to read simple co-operative literature will take a more

intelligent interest in their society and in the progress of the movement. Illiteracy is a hindrance to the movement, and just as co-operation leads to a demand for literacy, so literacy encourages the demand for co-operation. The effect of co-operation, however, extends beyond this. It does more than merely provide cheap credit ; it encourages thrift. The criterion for admission to a society is a man's character and not his wealth, and men, when brought together for their common weal and when pledging their common credit, have influenced each other's conduct and advanced each other's interests in ways previously undreamt of in this country. The fact that the members are ultimately responsible for the payment of the debts of each and every member, operates as a powerful check on expenditure on unproductive purposes greater than that absolutely required by public opinion, and marriage expenses have accordingly been curtailed. Drunkards and gamblers have been reformed or excluded from societies. Self-restraint, punctuality, straightforwardness, self-respect, discipline, contentment and thrift have been encouraged. In some areas litigation has markedly decreased. In others the common funds have been used to start schools, to provide scholarships, to distribute quinine, to provide drinking wells, to clean streets. The impetus of co-operative credit has led on to saving banks, benefit funds and provision for the poor. Those who have first-hand knowledge of co-operative societies are emphatic in their appreciation of the change which the movement is making in the character of the people affected by it, and it is important to bear in mind that co-operation is not merely a device for obtaining cheap money, or for increasing the economic resources of members, but is also a potent educational influence and, as such, is deserving of the warmest support from those who have the welfare of the people at heart. The managing bodies of the societies have frequently been entrusted with the arbitration of disputes and with other duties which belong to the traditional village panchayats, and there is some reason to think that the continuity of aim, and the solidarity of feeling inherent in the movement, may lead to a revival of the corporate village life which has been so weakened by the disintegrating influences of modern times.

9. *Co-operative credit chiefly for small agriculturists.*—In India, as in Europe, the greatest obstacle to economic progress has been the difficulty of obtaining capital at reasonable interest for peasant agriculture and for small industrial enterprises, and the foundation of the whole structure of co-operation, both in India and in Europe, has been the credit society. The provision of credit for large landowners is a marked feature of co-

operation in some European countries, and there are no doubt openings in India, towards which the Registrars of several provinces have already been feeling their way, for organising the credit of the larger landed proprietors. But an organisation of this kind rests on an entirely different footing from that of the ordinary credit society and it is unnecessary to refer to it further in this Resolution. The Indian Act of 1904 was admittedly intended to encourage 'small and simple credit societies for small and simple folk with simple needs, and these still constitute the vast majority of the societies which have since been instituted. To those not conversant with co-operative ideas the result may often appear trivial. The average number of members in a society in this country is 45 only, and the average working capital of a society does not exceed £200, the actual figures in many societies being of course often far smaller than these. There are indeed societies the capital of which is counted in lakhs, but some of them have commenced from petty beginnings of twenty and thirty rupees, and the strength of the co-operative movement rests in a large number of small but strong societies. Some 600 credit societies are concerned with classes and industries other than agricultural, the proportion of such non-agricultural societies being largest in the United Provinces, Bombay and Mysore. These societies are mainly for the benefit of the poorer classes of artisans, weavers for the most part, but others, such as carpenters, blacksmiths, shoemakers, etc., are also represented. Similar societies have been formed for clerks in offices, and they have lately been tried also in regiments in the Indian Army. The great bulk, however, of the twelve thousand credit societies in the country are for the benefit of the agricultural population, and the chief object held in view from the beginning has been to provide reasonable credit for small agriculturists, who represent the backbone of the Indian polity. The problem of agricultural credit has been looked on as more urgent than that of industrial credit, and the efforts of Government have been mainly devoted to the relief of the small agriculturist.

10. *Effect on money-lenders.*—The small agriculturist has hitherto been dependent for his funds on the small money-lender. It cannot be expected that the small money-lender, who takes great risks and who has to make his living, can lend at a low rate of interest. He has in many instances made unfair use of his superior intelligence, speculating, as he does, in dishonest borrowers, he insures himself against loss by making the honest borrowers pay, and the evil traditions of past generations of insecurity have probably led to higher rates of interest being charged than are now reasonable. The extension of co-operative credit

entail—and is meant to entail—the discouragement of direct dealings between the money-lender and the peasant. So far therefore as the money-lender depends on money-lending for subsistence, he finds the extension of the movement inimical to his interests. He loses some of his customers, and to retain the rest he has to reduce his rates of interest. It is not surprising therefore that he should, in many instances, have placed obstacles in the way of co-operation and, in some cases, even organised combined opposition to it. Cases have indeed been known in which Government servants related to, or sympathetic with, the money-lending classes have in their official capacity obstructed the progress of co-operation, and any cases of this kind when brought to light and proved should be dealt with seriously. But although co-operation must necessarily interfere with the business of the small money-lender there is no reason why he too should not participate in its benefits. In the past he has fulfilled a useful function in the rural economy of the country, and if he accommodates himself to circumstances he will continue to do so in the future. It is to be hoped that he will soon realise, as in many places he has already realised, not only that co-operation has come to stay and that it is useless to oppose it, but also that it has a useful and not unremunerative place in its constitution for all the old local banking agencies. The loan business of co-operative institutions is restricted to particular channels and protected by peculiar safe-guards; it also courts full publicity and should therefore prove attractive to money-lenders and others who have funds to invest. It is always open to the village banker to invest his funds either in the village societies or in one or other of the various central agencies, and these will afford him a scope for investment much less speculative than the traditional banking business of the village, while the increased wealth of the villagers will, in the end, open up many opportunities for the profitable utilisation of his capital.

11. "*Reasonable*" credit.—The object of co-operation is to obtain reasonable credit from reasonable creditors. This is not necessarily cheap credit and the rates of interest which represent reasonable credit vary very widely in different parts of India. A rate which would be considered extraordinarily low in Upper Burma would often be looked on as extortionate in parts of Gujrat and Madras, and it is no part of the functions of co-operation to reduce too rapidly the rates of interest to a uniformly low level throughout India. No doubt, as the movement strengthens, the rates of interest will everywhere tend to fall, and the process is taking place before our eyes. But a debtor who has been

accustomed to high rates can only be trained to thrift by gradual relief, and the sudden opening up of facile credit has too often led to his ruin. It is very desirable that societies should be financed to a large extent by local capital, and deposits from members or from the local public cannot be expected at rates markedly lower than are obtainable in other forms of investment in the neighbourhood. If, moreover, money is lent to members of societies at rates much below those prevailing in the area affected, there is the danger that money borrowed by members will be lent out again at higher interest. It is accordingly found that credit is afforded by societies at very different rates in different parts of India, but so long as the credit in its relation to local conditions is reasonable, it cannot be pronounced excessive.

12. *Types of society*—*Raiffeisen and Schulze-Delitzsch*.—The principal object of the credit societies being, then, to provide reasonable credit for small agriculturists and small artisans, there are various systems under which societies can be organised to attain this object. Speaking broadly there are two main lines on which societies can be constituted, and these are known by the names of their originators, Raiffeisen and Schulze-Delitzsch. The Raiffeisen societies are mainly for agriculturists and are often spoken of as 'rural banks,' while the Schulze-Delitzsch societies are primarily for artisan and are described as 'people's banks'. There are many points, both of principle and of detail, in which the two classes differ, but three only need be considered here, *viz.*, (i) the area of operations, (ii) the liability of members, and (iii) the treatment of profits. In the rural or Raiffeisen banks members are selected from a very limited area, their liability is nearly always unlimited, there are usually no shares (or if there are shares their value is very small), and there is no division of profits. In the people's or Schulze-Delitzsch banks, on the other hand, the operations of the society may cover an extended area, liability is usually limited, and the members have shares and receive fairly high dividends. These are the two main types of society known in Europe, but there are many variations from these types both in Europe and elsewhere. Among these may be mentioned the 'people's banks' of Italy organised by M. Luzzatti somewhat on the lines of the Schulze-Delitzsch societies but with limited liability in all cases and with smaller shares. In India, where societies have been started primarily for agricultural needs, they have, for the most part, conformed to the Raiffeisen type, but European models have not been slavishly copied, and in a new soil, and with new conditions, there has been no hesitation in departing from recognized types; uniformity has not been attempted and one of

the most marked feature of the Indian system is its elasticity. By frequent conferences among themselves the Registrars have kept in touch with the essential principles of co-operation, and so long as these principles are maintained, there can be no objection in adopting a considerable diversity of types.

13. *Area of operations.*—As credit, which is denied to the individual, becomes accessible to the society because the joint security of all its members is offered, each member must be responsible for every other member and this in fact and not merely in name. They must therefore be personally acquainted with one another and be in a position to exercise mutual control in their transactions with the society. It is true there must be no such artificial limitation in membership as would lead to the society becoming a close corporation, but there must be such a limitation as will ensure that the society is based on the principle of mutual responsibility. For this reason it has been found necessary, as a rule, to require that all the members of a society shall be residents of the same village. It is a sound general rule that there should be only one village in a society and only one society in a village. But to this there are exceptions. Where, for instance, a group of villages can conveniently form a co-operative unit they may without objection be served by one co-operative society. Where persons scattered over large areas are for any special reason so thoroughly in touch with one another that they are able and willing to be jointly responsible, the condition of propinquity is not absolute, and the law accordingly allows that members of the same tribe, class, caste or occupation, even if not resident in the same village or group of villages, may become members of the same society. Similarly, it is permissible to have more societies than one in a single village in cases where a village is so large that all the residents are not mutually acquainted, or where a village is so divided from any cause that one set of residents could not be expected to be jointly responsible for another. But the essential principle remains that societies should ordinarily consist of members so closely in touch with one another that they are willing to be, and can be, both in name and in fact, jointly responsible.

It is for a similar reason that the formation of societies in which one or two men of means have associated themselves with a number of poor and ignorant members has often been deprecated. In such cases there is the danger that the bulk of the members will have no common interest and feel no mutual responsibility. So too, where there are borrowers and lenders in the same society, a conflict of interests may easily arise and, for this reason, societies of poor agriculturists will often refuse to

allow the local money-lenders to be associated with them. Where, however, the motives of the monied applicant for membership are not open to suspicion, and where it is beyond doubt that he desires to assist the society by actual participation in its work, and that he has identified himself with the interests of the members, there can be no objection whatever to his admission. It may also sometimes be advisable for different classes of artisans, who need credit at different seasons, to join in one society and so supplement each other's wants. But it is a sound general principle that the members of a society should not only come from a restricted area, but should also represent a community of interest, and it is, as a rule, better that outside helpers should lend or deposit rather than purchase shares or lend their names as members.

14. *Form of liability.*—In the absence of special orders, passed by the Local Government under the Act, the liability of the members of an agricultural credit society in India must by law be unlimited, and, as a matter of fact, this form of liability prevails in practically all such societies in the country. Even among non-agricultural societies, where limited liability is permitted by law, about half the number are on an unlimited basis, and experience has shown that unlimited liability constitutes, as a rule, the only means by which individually poor people with small security to offer can obtain money on reasonable terms. It was at first very doubtful whether the idea of unlimited liability would be accepted by the people, and many experienced persons anticipated insuperable difficulties on this ground alone. The instinct of association, however, is familiar to the Indian mind, and the principle of unlimited liability has been accepted without demur. Unlimited liability is, indeed, better understood in the villages than limited liability, and for rural credit it constitutes the main basis of co-operation in this country. In joint or central societies, of which one of the members is a registered co-operative society, limited liability has been laid down by law as the usual rule, while in the case of urban banks, although a choice is allowed, this form of liability is suitable as there is usually less cohesion among the members and more business faculty.

15. *Shares and profits.*—The holding of shares and division of profits are contrary to strict Raiffeisen principles. Shares are usually associated with profit-making concerns, and one of their chief purposes is to limit the liability of members; while profit-sharing naturally leads to profit-seeking. Consequently, the policy with regard to co-operation in this country, which is mainly based on Raiffeisen principles, has hitherto discouraged both the holding of shares and the division of profits. But as

experience has shown, both in India and in Europe, that societies of too austere a type do not always succeed in attracting members, it has been found necessary, under proper precautions, to depart from the Raiffeisen traditions, and in Madras, for example, societies are based largely on share capital, while a modified system of shares and dividends has been adopted in the Punjab, in the United Provinces, and in Burma. This system is one which was devised to a large extent by the peasants of one of the Punjab districts, and it does not conform strictly to that of any of the types of society known in Europe. Under this system, as practised in the Punjab, each rural society has a share capital which the members subscribe in instalments spread over ten years, members who join the society after the first year being required to pay up such instalments as they would have paid had they joined at the beginning. Until recently members could withdraw their shares after the bank had been in existence for ten years, but a new bye-law has now been introduced making all shares subscribed in future non-returnable. The profit earned on a share is not distributed, but, at the end of ten years, the accumulated profit is, after deducting one quarter for reserve, added to the value of the share, and on the increased share thus formed, a dividend will thereafter be paid. After ten years a society will thus have acquired a capital composed of the shares subscribed together with the profit earned. To this capital will be added each year at least one quarter of the annual profits. The ordinary type of agricultural society in the United Provinces and Burma is now based on somewhat similar lines, and the success attained by co-operative credit in provinces which have introduced shares and a division of profits makes it necessary to adopt a somewhat less rigid attitude towards these methods than has hitherto been the case. There can be no question that it should be one of the first objects of a society to form a capital of its own so as to be, so far as is possible, independent of outside assistance. Deposits—even those of members—are liable to become a source of danger in times of financial stress, and it is clear that the more a society employs money of its own which cannot be withdrawn, and the less it has to depend on the money of others and on money which can be withdrawn, the stronger will be its position at a time of economic strain. Provided, therefore, that shares do not imply any limitation of the liability of members, they undoubtedly form, together with the reserve fund, a valuable part of the assets of a society. They also offer an incentive to thrift and may very well form a provision against old age or misfortune. Division of profits is a matter which is more open to objection; but, if there be shares, a reasonable dividend may

without objections be paid, and it is not altogether logical to refuse a dividend on the shares of members, while allowing them interest on deposits. Rather, the member who puts his money permanently with the society would seem to be more deserving of a reasonable return on it than the member who merely puts it in for a time. The general conclusion appears to be that, in judging whether shares and a division of profits are advisable or not, it is necessary to consider the object for which they are introduced. If the object is the personal gain of the members, or of some of them, both measures are objectionable. But if the object is to increase the permanent resources of the society, and to offer only a moderate incentive to investment, both appear to be legitimate especially when it is remembered that sufficient legislative safeguards exist to prevent abuses. When a share system accompanied by a division of profits has been introduced, the Local Government has always the power to check undue profit-making by limiting the number of shares which can be held by a member as well as by limiting the amount of dividend which can be paid. But societies so constituted require to be carefully watched, as it is above all things necessary to ensure that large dividends are not paid and that the mutual benefit of members, which is the primary object of co-operation, is the object kept steadily in view.

16. *Forms of security.*—So, too, as regards the class of security to be taken from borrowers, the main principles underlying co-operative credit, are the full mutual responsibility of the members and the profitable employment by them of the money they borrow. In all unlimited societies the whole property of the members is ultimately liable for the needs of the society. The security, however, both of the society against its members, and of outsiders against the society, is primarily the character of the members and only in a secondary degree their personal or landed property. A loan to a member is sometimes made on the borrower's personal security only, but it would appear to be more common to demand one or two sureties. The loan of money by societies with unlimited liability on the security of moveable property is discouraged by the law and a Local Government may prohibit or restrict the lending of money by a society on the mortgage of immoveable property. In practice it is rare to find movable taken in security, and mortgages cover a tenth only of the loans given out. In provinces where there are records of rights in land, the amount of each man's property, and the encumbrances on it, are easily ascertained, so that specific mortgages are less necessary, while in some areas the credit obtainable on mortgage from the outside

market is already as cheap as can be obtained from co-operative societies. Where, as is usually the case, the loan secured by mortgage is for a long term, there are objections to locking up capital in a form which is not readily available. There is, however, no absolute rule against mortgages, and in some provinces, such as Madras and Burma, where land has always been pledged, this form of security is frequently resorted to, and the fact that his property is mortgaged serves to emphasize the exclusive liability of a member to his society. Mortgages are useful in areas under new colonization where the borrower has little or no security beyond his land to offer, and they are often employed to release a member from a previous usurious mortgage by the substitution of another to the society on milder terms.

17. *Previous debts.*—A question is in this connection sometimes raised : should a member be admitted to a society who is not free from outside debts? The only answer that experience admits of being given is that until a member has been freed from outside debts, a society is not performing its full functions, but it is a counsel of perfection to expect that no one shall be admitted as a member unless and until his outside debts have been paid off. There are, of course, extreme cases in which a man is so indebted that there is no hope of his debts ever being cleared off, and in such a case the proper course is to refuse him admission to the society. But there are many cases, including some that at first sight may appear hopeless, in which the societies can do much. The panchayats in charge of societies have in many cases undertaken the part of conciliators, and, by offering immediate payment, have secured considerable remissions of claims from creditors. A full disclosure of existing debts is a necessary preliminary to admission and there is sometimes in practice considerable difficulty in ascertaining the full extent of a member's unsecured debts, but proposals have been put forward for investing the societies with power to call on creditors to file claims by a fixed date on pain of lapse, and if these should be approved, societies will be materially strengthened in dealing with the outstanding debts of their members. It is indeed to co-operation, more than to any other measures, that recourse must now be had in the attempt to solve the difficult problem of rural indebtedness in this country, and co-operation has advantages which most of the schemes put forward with this object do not possess. It is applicable not only to the classes which possess land but also to others. It makes it possible to reduce outstanding debt without extravagant expenditure of public money. And—what is most important of all—it ensures that the debtor, when cleared of debt, shall

be put in a way of life which discourages debt and thriftlessness in the future.

18. *Object of loans.*—Another important matter regarding which doubt has at times been expressed is whether it is justifiable for a society to lend to its members for other than productive purposes. This was considered when legislation was undertaken, and Government has deliberately refrained from placing any restrictions on the objects for which loans are granted. Apart from the fact that it would be impossible to devise any complete check on the expenditure of a loan, or to say from what sources the money spent on any particular object was derived, it would be suicidal for societies to place any absolute prohibition on the grant of loans for unproductive purposes. The society occupies the place previously held by the money-lender, and it must give loans for all purposes for which loans are essential, including any social expenditure required by public opinion, and if it failed to do this, it would only encourage its members to resort to money-lenders. It has been found by experience that members being jointly and severally responsible for one another will take care that the amount spent on social requirements is not in excess of that prescribed by public opinion in the village, and the dictates of the society in such matters are in most cases cheerfully accepted by the borrower. It has indeed been said, and with much truth, that by lending money for ceremonial purposes societies 'close one of the high roads to insolvency.' While, however, loans are granted for non-productive objects it is an almost universal practice for societies to insist in giving a loan that they should be informed of the object for which it is required in order that they may satisfy themselves as to its necessity, and, as a matter of fact, comparatively few loans are taken for unproductive purposes. It is also necessary that when a loan is granted for a particular purpose the society should satisfy itself that the money has actually been applied to the object for which it was borrowed.

19. *Concessions to societies.*—The extent to which societies receive or should receive direct support, financial or administrative, from Government is a matter which is considered below. There are, however, certain methods by which co-operation may legitimately receive indirect assistance. Just as the whole organization has been exempted from the detailed formalities of the ordinary commercial law of Companies, so too it has been found advisable to allow of the remission in certain cases of such charges as stamp duties, income-tax and registration fees. The working of societies is further facilitated by allowing the despatch of their money in some instances through the Government treasury ; Government

may help by subscribing to co-operative periodicals ; it may go further and allow to societies, as it does in the Act, a prior claim on the debtor's property ; or it may exempt shares from attachment. But while Government has been anxious to remove unnecessary obstacles from the path of co-operation, it has been no part of its policy to render the movement dependent for its progress on Government tutelage. When, for instance, it is asked—as it frequently has been asked by many earnest supporters of the cause—to allow the societies a special summary procedure for the recovery of their debts in place of the slow and expensive methods of the course, it has withheld its sanction. Although defaults through fraud are exceedingly rare it would be mistaken kindness to confer upon societies arbitrary powers of recovery, and if in the absence of such powers a society cannot by means of the joint security given and its own moral authority, collect its debts, the failure is due to a careless selection of members in the first instance or to lax management. Whether or not special methods might be justified in the case of recoveries at the time of liquidation, or when suits are brought by central banks against their constituent societies there can be little doubt that if individual societies could employ such methods in dealing with their members, they would be encouraged to become careless in administration, and to neglect the vital principle that admission should be refused to those who cannot be relied upon to fulfil their obligations.

20. *Funds of societies.*—The funds of societies are derived from various sources, and the proportions in which these sources are tapped vary in different parts of India. For agricultural societies generally the four main sources of income are the share capital, the deposits of members, the loans and deposits from non-members, and loans and deposits from other societies, and the percentage of the total working capital represented by each of these heads of income is that indicated in the margin. Leaving out of

<i>Shares</i> ... ..	...	13	account the money received
<i>Loans and deposits by members</i> ...	...	10	from other societies (that is
<i>Ditto by non-members</i> ...	...	11	to say in the main from the
<i>Ditto from other societies</i> ...	...	58	central societies described in

paragraph 23 below) it will be observed that members themselves contribute in the form of shares, loans and deposits about twice as much as outsiders. As indicating the stimulation of thrift this result is, from the co-operative point of view, satisfactory, and it is in some respects better that members should raise their own funds. On the other hand it is a satisfactory test of the progress of a society if it can show that it has

enlisted the confidence of the public. The essential point, however, is that funds should be received in such a form that the society will receive adequate warning before they are withdrawn, and from this point of view there are advantages in receiving money in the form of shares. Similarly as between deposits, there is an obvious advantage in long term deposits as opposed to those received on short terms or on current account. There is no complete information regarding the ordinary length of term for which loans are given to members by societies in different parts of India, and it would be convenient if in future Registrars would include such data as are available on this subject in their reports. Generally speaking, however, loans, whether made in the first instance for short terms only, or for long periods, are usually repayable after the time of harvest. And just as loans are ordinarily repayable after a harvest, so too the demand for loans is for the most part concentrated into a period corresponding with the commencement of the sowings for the chief harvest of the year, and it is necessary that the system on which deposits are received should accommodate itself so far as possible to these circumstances. To a certain extent this can be done by utilising the credit available from central societies, but it is also necessary that individual societies should provide, so far as possible, that funds may be available when they are most in demand by regulating the ordinary length of term for which deposits are received.

21. *Repayment*.—The ability and willingness on the part of the members of credit societies to repay loans is a prime factor in the establishment of public confidence in the co-operative movement. Forethought, thrift and business methods are not characteristics of the classes for whose benefit co operation is intended, and in the early years of the movement it would not have been surprising had the members of credit societies shown shortcomings in the matter of the repayment of their loans. On the whole, however, judging by the results, repayment seems to have been satisfactory, delay being due rather to want of the business habit and to the difficulty experienced by Registrars in laying down a definite system of instalments for repayment than to any desire to shirk obligations. Now that experience has been gained it would be well if, so far as is possible, a definite system of repayments were prescribed. Uncertainty in this matter may lead to carelessness on the part of borrowers, to slackness and partiality in management, and so to the 'eternalisation' of loans.

22. *Reserve fund*.—As a test of financial stability the importance of the reserve can scarcely be over-estimated. It supplies a source of

income which may be drawn upon in lean years ; it fortifies outside confidence and so attracts deposits ; it protects members from money payments under their unlimited liability ; it cheapens credit ; and, perhaps, most important of all, it binds members together. The law contemplates that at least one-fourth of the profits shall be credited to the reserve fund, but it should by no means be considered necessary or desirable, even in share societies, to restrict the income of the fund to this figure. Stated in the order of their importance profits are available for three main objects, the building up of a reserve, the reduction of the interest demanded from borrowers, and the distribution of dividends to members. Regarding the manner in which the reserve should be employed there has, however, been some difference of opinion. Some hold that the reserve should always be separately invested in a central bank or other outside institution, and that unless this is done it is impossible to obtain the additional outside confidence which it is one of the functions of the reserve to secure. Others contend that so long as a higher rate of interest can be obtained by lending it to members it is better business to utilize the reserve in the ordinary work of the society, and where, as is the case in some provinces, the margin of interest is large and the reserve fund grows rapidly, the use of the reserve fund in this way enables the society to dispense with outside loans and deposits. In Madras and the Central Provinces the reserve is usually invested separately, while in the other large provinces it is freely used for the the ordinary business of the societies. There can be little doubt that though in the earlier stages when working capital is small, the reserve may fairly be used to supplement the working capital, it should be invested when any considerable amount has been accumulated and efforts should be made, as the working capital increases, to conform by degrees more closely to this practice. The agricultural societies in India now possess a reserve of 10 lakhs or $3\frac{1}{2}$ per cent, of the working capital, but no information is available to show in each province how much of this is separately invested, or what portion of the amount set aside as reserve may have been excluded from the above figure on account of its employment in the ordinary business of the societies. It may be remarked that in the German Raiffeisen banks the reserve constitutes $2\frac{1}{2}$, and in the Schulze-Delitzsch banks $6\frac{1}{2}$ per cent. of the working capital.

23. *Central societies.*—As societies increase in number it has been found advisable in India, as in Europe, to group them together for purposes both of control and of finance. By federating themselves under

a joint central institution, societies provide themselves with an excellent agency for mutual inspection, and it is a mistake to suppose that inspection by such central agencies, even when no financial control is involved, in any way impairs the independence of the societies. It must, moreover, be recognised that just as members of an individual society obtain increased confidence and credit by mutual control, so too societies are able by combining with one another to obtain a similar increase of confidence and credit. These combinations of societies are classed in the published returns under the generic name of central societies. But they are not constituted on uniform lines throughout the country. Sometimes the combination is for no other purpose than the inspection and extension of the societies, and in such cases it is properly called a Union. Such a Union may have no connection with finance beyond the provision of information to a financing body, or it may, as in Madras, the Central Provinces and Burma, so far extend its functions as to guarantee the security of the societies which constitute it. In some areas, notably in Bihar, the United Provinces and Bengal, the Union both inspects and finances its constituent societies and is then spoken of as a Banking Union. Or again, the central institution may finance only without inspecting, and such a body constitutes a central bank in the more restricted sense of the term. There is no uniform organisation for these financing bodies, as the societies which they support are not uniformly spread over the country; but there is a tendency to group the societies of a tahsil, taluk, sub-division or district under a central financing institution, known either as a central or a district bank. It is a matter of some importance to recognise the right moment in the development of co-operation at which one of these central agencies should be established. A society cannot attain its full measure of usefulness until it is federated with, and assisted in some way by some central agency, but if central banks be started prematurely, they are apt to become mere forcing agencies for the artificial creation of affiliated societies. In India the structure has been built upwards from below, and for this reason it has been found advisable to discourage the formation of scattered societies at long distances from one another and to concentrate the movement, allowing it as much as possible to expand from centres in which it has found a congenial soil. It is gratifying to know that as a result of this policy there are already whole districts in India where there is one co-operative society for every three or four villages.

The formation of central societies was not contemplated in the Act of 1904. It was supposed that the capital for rural credit societies would

largely be supplied through the agency of town societies, and even when the central system was started, it was the practice in some areas to treat the constituent societies as branches of the central society rather than as independent though affiliated units. The status of central societies has, however, been fully recognised and provided for in the Act of 1912. These institutions are sometimes constituted with societies only as members, but in many cases individuals also, and in some cases individuals alone, are admitted to membership. They are treated as co-operative societies under the law, but on a basis of limited liability and about half the individual societies in India are now shareholders in central banks, although assistance is also given by some banks to societies which are not shareholders. In some areas it has been advisable to define the liability of the constituent societies by limiting it to some multiple of their shares, and it would possibly be an advantage if this or some similar plan were adopted generally. It would also probably be well if local Governments were, at the present stage, to avail themselves of the permission given by the law to limit the rate of dividend in the case of central societies, so as to prevent any tendency on the part of such banks to subordinate the interests of the constituent societies to their own. It may be objected that societies are at present unduly dependent on these central agencies for their funds, but the system has its advantages. The administration of the central societies, being more on the lines of joint stock business, requires expert management and they have usually opened a connection with outside joint stock institutions by means of deposits or cash accounts. They are themselves largely dependent for funds on shares and debentures, and are thus in a position to provide the individual societies with a fair proportion of funds for long term loans as well as to allow current credits for current wants. The ideal to be aimed at is that rural societies should raise locally what capital they ordinarily require, and that central banks should make good any deficiency in the supply of local capital. A time no doubt will come when local capital will be the principal source from which funds are derived, but at present the main function of the central banks is to enable individual societies to obtain and consequently to lend out money on easier terms than are available in the open market, and it is in this respect that they are able to give to the societies a marked advantage over the local money-lenders. Under the system of village finance hitherto prevalent in India, the village money-lender has almost always been dependent on his own resources only, and has dealt with a limited clientele. Apart, therefore, from all other considerations the rates of interest which he charges are consider-

ably higher than those at which a society acting in combination with other societies and working in touch with the general money-market of the country can profitably lend money. By bringing the borrower into touch with the outside money-market, central societies are fulfilling a new and important function and they provide also the machinery by which the excesses and deficiencies of their constituent societies can be balanced.

24. *Provincial banks.*—In themselves, however, the central banks cannot completely fulfil this function. Their range is necessarily limited, and they are subject only in a less degree than the individual societies to vicissitudes of season and fluctuations in the demand for money. They in their turn require further agencies from which they can obtain money in the busy months and through which they can utilize it in the slack season. It is possible to some extent to obtain the necessary help by means of loans from or cash credits with large joint stock banks, but by a combination on co-operative principles among the central banks themselves an additional advantage in the way of increased credit is secured. It has, therefore, in several provinces been found necessary to establish banks dealing with an area larger than that covered by the ordinary central bank. In Burma, the business of one of the central banks is so considerable as practically to cover the whole province and to constitute it a provincial institution. Elsewhere, as in Bombay and the Central Provinces, special Provincial Banks have been organised and the establishment of similar institutions in other provinces is probably only a matter of time. The Bombay Bank, which was started in 1911 by a number of prominent men of business in Bombay, may issue shares to the value of 7 lakhs in the first instance. With this fund as a basis of credit it may issue debentures carrying interest at the rate four per cent per annum, to an amount not exceeding three times the paid-up capital and interest at this rate has been guaranteed by the Government of Bombay. The bank lends to co-operative societies only and loans are made to societies direct, more especially in connection with the development of sugar cultivation on the Nira Canal. The Provincial Bank in the Central Provinces was established in 1912 without any official guarantee, and is an institution dealing with central banks only. It has a capital of six lakhs and should prove a useful link between the ordinary commercial banks and the chain of co-operative banks in the Central Provinces, though it has, hitherto, been successful in raising locally its own capital. But although the operations of banks of this kind are confined to a single province, it is obviously opposed to the best interests

of the movement, that they should compete in attracting deposits, and Registrars might usefully arrange not only that there may be no overlapping in this respect, but also that the excess funds of one bank may be available for use by another. The responsibilities introduced by the addition to the co-operative organisation of central and provincial banks are of a serious character. To supervise the relations of such institutions with the money-market on the one hand and with their constituent societies on the other is a task which requires a considerable degree of technical skill and the administration of the whole co-operative movement in the stages above that of the individual society is a matter which must in the immediate future engage the serious attention of Government and of the people.

25. *Inspection and audit.*—The establishment of these central agencies even in the lower grades has introduced a new business element into the movement, and the administration of co-operative credit must in future present many more difficulties and complexities than in the past. Hitherto the ordinary staff, both official and non-official, has been sufficient for the purposes of inspection and audit, but the question how far special training and expert assistance are required to deal with the larger central institutions and the problems they involve will shortly have to be faced. It is already necessary in the case of some of these institutions to entrust the audit to outside expert agency, but in the main the audit and inspection of societies is carried out by a staff entertained for the purpose either by Government or by the central agencies themselves. In most of the agricultural societies, the local administration is entirely or almost entirely gratuitous; accounts are ordinarily of a very primitive character, and cases have indeed been known where, in the absence of literate assistance on the spot, accounts have been prepared by the inspecting staff. Even in the less primitive associations the duties of inspection and audit are not regularly differentiated, and both of these duties have usually to be combined with the task of answering enquiries from outside and extending knowledge of the principles of co-operation. The staff is at present a small one—from 200 to 300 in all—but its duties are of great and increasing importance, as it is upon close inspection and trustworthy audit that the success of co-operation must largely depend.

26. *Forms of co-operation other than credit.*—The above considerations, though intended primarily to apply to credit societies, are largely applicable to other forms of co-operation. Societies other than credit societies were first formally recognised by the Act of 1912, and there has not yet been time for any great development of this form of co-operation.

According to the latest data, there are now in India some 170 non-credit societies, of which about half are agricultural in character, and they have been formed in order to secure for the humbler classes of the community those advantages in industry and agriculture which the masters of capital derive from the organization of labour, the use of costly machinery, and the economies of business when carried out on a large scale. The management of such societies, dealing as they do with the sale and purchase of articles and the insurance of animals and produce, involves a class of problems far more complex and difficult than those which arise in ordinary agricultural credit. Their ultimate importance to the country may be immense, possibly greater even than that of credit institutions, but at present they are in their infancy. They are a necessary corollary to improved credit, but credit is the first essential and until a system of credit has been firmly established in a province, it would be dangerous to encourage too rapid development on other lines. It has indeed been suggested that the establishment of such societies should always be preceded by some kind of agricultural or industrial survey of the economic needs of the people, and the suggestion is worthy of careful consideration. The application to agriculture of this form of co-operation is at present almost entirely confined to Burma, where societies have been started for the production and sale of rice and other crops, or for the insurance of cattle. The latter class of enterprise is one which is attended with special difficulties owing to the absence of reliable data regarding cattle mortality on which the premia can be calculated, and to the very limited extent to which veterinary assistance is available and it has been recognised in Burma that in any system of cattle insurance there must also be some central organization and means for reinsurance in order that local societies may not be ruined by local calamities. In the industrial sphere there has been somewhat greater scope for co-operative societies other than those framed for the improvement of credit, and most of these are societies for the purchase or for the purchase and sale of articles. As in the case of credit, it would appear that the most promising field for industrial co-operation lies in the improvement of the condition of the weaver community, and in some provinces a beginning has been made by establishing societies of handloom weavers who, by joining together, are able to purchase their yarn and to sell their cloth at more favourable rates than are available to an individual workman dealing with a middleman. Other enterprises have, however, been started in connection with the improvement of sugar production and of milk, the supply of stores and so forth, and the institu-

tion of building societies has been a special feature of the co-operative movement in Mysore. In all these directions the people are still feeling their way, and co-operation of the kind is still in an experimental stage. There are, however, two principles which may be laid down as the result of the experience hitherto gained. In the first place it is desirable that the management of each class of work should be kept distinct, either by the establishment of separate societies, or, if that is not feasible, by the appointment of separate sub-committees for each branch of work, separate accounts and separate annual balance sheets being prepared and presented before being incorporated in the general returns of the society. And, secondly, although these societies are meant primarily for the benefit of their own members, it is sometimes advisable to allow non-members to deal with the society, and there are indeed areas where, without an outside clientele, the operations of the society would be so restricted that it could not have been started with any hope of success. Where, however, a society includes non-members among its customers, it is always open to it to offer more favourable terms to its own members.

27. *Relations of Government to the movement.*—The relations of Government to the co-operative movement have been criticised from two opposite points of view.

On the one hand, there are some who contend that the movement, beneficent as it is, is essentially one for the people to work out on their own lines and that Government interference at any stage is uncalled for. Whatever limitations, however, may be suitable as regards the assistance of Government in European countries (and in no country is the movement entirely independent of Government aid), it is certain that in India without initiative and help from Government co-operation would still be unknown. Government alone was in a position to supply the knowledge and organization necessary to start the work and Government alone is able by its association with the movement to create the outside confidence necessary to give it stability. Registrars are not, and are not intended to be, merely registering officers: they are also expected to provide supervision, assistance, counsel, and control. It is not to be imagined that societies will become perfect models of co-operation on formation and it is necessary that Government, through its own and the societies' staff, should continue their co-operative education long after they are registered. Unless a society is co-operative in fact as well as in name—and it can only be so if all its members understand the main principles—it is a fraud on its members and on the public. The fact, too, that societies, though primarily self-contained and self-governed, are subject to

supervision by Government officers, has an important effect in attracting public confidence, and the benefits thus accruing to the country at large fully justify the expenditure of public money on official supervision. Lastly, the co-operative movement by bringing the officers of Government into close touch with the people in economic matters, provides opportunities for developing those closer relations in other respects which it is so desirable to foster.

But just as there are some critics who deprecate Government assistance, so too there are others, both non-official and official, who plead for a far greater degree of Government intervention than has hitherto been permitted. They urge that in order to touch more than the fringe of the population, a far more rapid rate of progress is called for, and, that unless the Government staff be largely increased, and unless active measures be taken by Government to propagate the movement, its effect must be small and its progress slow. This too represents a policy which Government has not felt itself at liberty to adopt. Not only is it the case that work done by a large centralized department tends to become mechanical and listless, but the movement must in its essence be a popular one and nothing should be done to weaken the feeling among co-operators that it is 'based upon self-reliance and independence. Government, therefore, in the best interests of the movement, must not allow co-operation in this country to become an official concern managed by State establishments.

28. *Financial aid—control and audit.*—The result is that Government has to steer a middle course, and this has been the policy adopted both as regards supervision and financial aid.

So far as financial aid is concerned, there has been intervention on the part of Government, but it has been of the slightest possible character. When co-operation was initiated ten years ago Government was urged to subsidize the new societies liberally and its apparent parsimony was criticized. But the evils of excessive liberality were fortunately foreseen and the restriction of State aid was due not to niggardliness but to the fact that in other countries experience had shown that unrestricted assistance was a dangerous and might be a fatal gift. It was decided, however, as in the early stages there was no immediate prospect of bringing societies into contact with the general money market, that, subject to equivalent contributions from the members, loans might be given within certain limits. But except in one or two provinces, where special reasons for help existed, Registrars have properly discouraged any undue reliance on such assistance, and the proportion of the total capital of societies represented by Government loans now scarcely exceeds 3 per

cent. Without these loans many societies would not have come into existence, and in fostering infant societies they have fulfilled a useful purpose, but events have fully proved the wisdom of the policy of avoiding excessive State aid and it is to the adoption of that policy that the inherent strength of the movement is largely due.

So too, as regards the difficult question of control and audit, it is recognised that these duties cannot be left entirely to the private agency of unions and central banks. It is desirable that this non-official agency should be utilized as much as possible and that purely departmental routine in the work of audit and control should be avoided, but the success of the movement would be endangered if this principle were carried out to an extreme. Without some degree of Government supervision Registrars would lose touch with the societies; and the outside public, who depend largely on the information possessed by Registrars, and who value the scrutiny carried out by those on whom they rely, would lose that confidence in the financial position of the societies which it is so essential to maintain. Had this safeguard been neglected, it is doubtful whether societies would have escaped—as fortunately they have almost everywhere escaped—the evil effects of the recent banking crisis in India, and the circumstances attending that crisis indicate that any arrangement which would dispense altogether with Government supervision is impracticable. The audit, moreover, of a group of societies by a central society, whose own credit is bound up with that of the societies dependent on it, will not be accepted by the public as equivalent in value to an audit by an outside agency. It is necessary, therefore, that societies should be controlled and audited by a reliable staff which can keep the Registrar informed of the financial position of the societies, and it is also necessary that the agency employed should be such as will ensure the confidence of the money-lending public. The staff need not be paid by Government, and it is indeed as a rule better that societies should themselves be responsible for the payment of the controlling and auditing staff than that they should be indebted to Government for its services, but whether the staff is paid by the societies or not, it is ordinarily advisable that it should be appointed subject to the approval of the Registrars, and that it should remain under their general control. If by this or any other means the two main conditions above noted are satisfied—first, that Registrars should possess reliable information regarding the financial position of societies, and secondly, that the outside public should have confidence in the control and audit—it is an advantage that the number of Government officials employed should be

as small as possible, and every effort has been made to reduce to the lowest figure the agency directly employed by Government.

29. *Attitude of district officers.*—But while the movement must be essentially a popular one and while excessive official supervision must be avoided, it by no means follows that Government officials outside the circle of those directly connected with co-operation should hold aloof. It is true that the details of initiation and inspection should be left to the expert agency provided for the purpose, and it is no part of the duty of the district officer to intervene in the internal administration of societies. But as co-operative societies are no longer isolated experiments outside the sphere of district work, and as, beyond the material benefits which they offer, they represent an influence closely connected with the welfare of the people and powerful, now and in the future, for good or evil, the district officer cannot dissociate himself from the movement. On the contrary, a knowledge of co-operative principles and practice has now become as essential as a knowledge of revenue law and it is his duty to maintain the closest touch with societies, not allowing them to languish through want of sympathy or to develop on undesirable lines through want of vigilance. Without in any way becoming an active propagandist he should, personally and not through his subordinates, make himself acquainted with the progress of the movement in his district, encouraging and helping those who have formed themselves into societies, enlisting the interest and support of men of influence and wealth, and assisting with his advice those who seek to avail themselves of the benefits of co-operation. This in no way involves the officialising of co-operation, nor does it trench upon the essential principle that the movement, if it is to succeed, must be a popular one. Rather will it gain in strength by such encouragement and guidance while the more closely the district officer is in touch with societies the more surely will he find to his hand new and valuable agencies to help him in his daily work.

It is for Local Governments to consider to what extent and in what manner use can be made of societies in each province in district administration—how far they can afford a means of ascertaining the real public feeling of the district—how far they can by rendering voluntary aid assist in promoting primary education, rural sanitation and medical relief—in what manner they can be used in times of scarcity and famine or during the prevalence of epidemics, or whether the training afforded by them will lead to the development of a true system of village government.

In these and other ways it may be found possible to utilize the co-operative organisation, and the movement should, if wisely directed

exercise an important influence in promoting the welfare of the people. But although it is still uncertain to what extent, and in what manner, societies may assist in the work of the district, there can be no doubt that a new factor in administration, which cannot be disregarded, has come into being, and that new duties and responsibilities have been thrown upon the district officer.

30. *Official and non-official assistance.*—Co-operation in India owes much to the devoted efforts of the many officials who have spent much time and thought on the furtherance of the movement, and a special obligation is due to the admirable body of Registrars who in the various provinces have guided the societies through their earlier stages. They have as a rule been picked men. Several of them had prepared themselves for their duties by special study of co-operation in Europe; and as a body they have applied themselves to their task with splendid energy and equally splendid patience. They have not only effected much by their own efforts, but they have succeeded in eliciting enthusiastic assistance from others, and the movement owes much to the great body of non-official workers who have so ably seconded the efforts of Registrars. Gentlemen of all shades of opinion and creed have come forward to assist not only by making more general a knowledge of the principles of co-operation and of its benefits, but also by initiating new societies and by giving unremitting attention to those of which they are themselves members. Help of all kinds has come from every quarter—from commercial firms, from great bankers, from planters, from zemindars, from ryots, from pleaders, from retired Government servants—both European and Indian—from missionary bodies of all denominations, from the Salvation Army and from numerous other classes and associations. The interest which has been aroused in so many quarters, and the zeal which has been shown have added to the strength of the movement, and have been a source of the greatest encouragement to Government and its officers in the initiation of this important experiment. On some few of the unofficial workers Government has been able to bestow special marks of its appreciation, but there are many whose work has not and cannot receive tangible recognition, and who indeed have toiled with a strenuous modesty which looks for no reward beyond the consciousness of having served the best interests of their country. To these, equally with the others, Government, which has these same interests at heart extend its sincere acknowledgments and thanks.

31. *Summary.*—The remarkable progress which has been made during the first ten years could not have been foreseen by the most

sanguine believer in co-operation. From small beginnings the movement, fostered by the resourceful guidance of Registrars and assisted by a body of non-official workers, has grown rapidly until it now represents an influence vitally affecting a large section of the people. The development which has taken place is all the more striking when it is remembered that excessive State aid has been avoided, and that the aim kept steadily in view has been, not the rapid multiplication of societies, but the restriction of the movement within safe bounds. The policy of restricting State aid within narrow limits has been fully vindicated and has led to an increase of self-reliance and independence, while the caution with which government has stimulated development has resulted in a natural and healthy growth. The future is full of promise, and although under the influence of federation, and with increased unofficial aid and supervision more rapid progress may be expected, the caution and restraint shown in the past should continue.

Co-operation has brought with it a wide circle of benefits, both moral and material, and these benefits are intended primarily and mainly, but by no means exclusively, for the poorer agricultural classes. They are not however, confined to societies of any particular type, and a marked feature of the Indian system is its elasticity. So long as the members of the rural society are in touch with one another and have a unity of interest, so long as the principle of unlimited liability is maintained as a leading feature, and so long as precautions are taken to prevent undue importance being attached to the profits of members, there is no necessity to adhere slavishly to any particular type. In the detailed administration of credit societies, there are certain maxims which, subject to the reservations specified in this Resolution, may be said to represent the teachings of our experience and some of these are :—

- (a) that mortgages as a security for debt, though ordinarily discouraged, are not without their uses in certain cases ;
- (b) that the early clearance of a member from previous debts after his admission to a society is desirable ;
- (c) that it is unnecessary to confine the grant of loans to those required for productive purposes ;
- (d) that while it is desirable that Government should remove certain technical obstacles in the way of co-operation, it would be unwise to grant exceptional concessions as this would remove from the societies the incentive to self-help, .

- (e) that while it is impossible to lay down any general rule regarding the comparative importance of the different sources from which the funds of societies are derived, it is essential that the bulk of these funds should be in a form easily realizable ;
- (f) that the greatest importance should be attached to the punctual repayments of loans ; and
- (g) that while there may be advantages in the earlier stages in using the reserve as part of the working capital of the society, it should gradually, as it becomes more important, be set apart for separate investment.

As societies increase, it has been found necessary to federate them under central banks or corresponding organizations. In some provinces these have again been brought under a Provincial Bank, and the establishment of such banks in all the major provinces is probably only a matter of time. These central institutions bring individual societies into touch with the general money market and serve as distributing centres for their balances. Their management presents special difficulties, and, if co-operation is to be secured against catastrophe, this portion of the organization will require particular attention. It is necessary for similar reasons to insist on adequate inspection and audit of individual societies, and Government, while anxious to secure as much autonomy as possible for the movement, cannot dissociate itself from the task of securing at all times, both on financial and on social grounds, an efficient degree of supervision. Finally, although district officers need not concern themselves with the details of initiation and inspection, they must recognise that a new factor in district administration has come into being, that new duties and new responsibilities have been thrown upon them, and that the movement, if wisely directed, may form yet another link which binds together Government and the people.

APPENDIX V.

ABSTRACT REPORT OF THE IMPERIAL COMMITTEE ON CO-OPERATION, 1915

1. *Object of Abstract Report.*—In order to facilitate an appreciation of our views by persons to whom our Report may appear too detailed and technical, we have deemed it convenient to prepare an abstract dealing only with those points which are of larger importance. For this reason we do not propose to enter into great detail and our remarks in this abstract must be held to be supplemented by what we have said in our main Report. For the same reason we shall refer to agricultural credit societies only among primary societies, as societies of this nature form 13,715 out of the 14,566 primary societies which have come into existence since co-operation first obtained a footing in India in 1904.

2. *The Primary Society.*—A primary agricultural co-operative credit society is formed in its first stage by a number of individuals, not less than ten, who, because they are unable individually to obtain the credit which is necessary for their small agricultural operations either in adequate quantity or at rates or on terms of honest dealing which enable them to work at a profit, combine together to obtain this necessary credit on reasonable conditions. To effect this each becomes liable for the debts of the society to the extent of the whole of his assets. If in this combination there is a number of well-to-do persons who have joined, not to obtain credit facilities they already possess, but to assist their poorer friends, it is obvious that the addition they bring to the total of the assets of the individual members provides a substantial security to a creditor for any money lent to the society and used by the poorer members. If, on the other hand, all the members are of the same class, too poor individually to be trusted with any loan at a rate of interest which does not include a very large proportion of insurance to guard against the risk of non-repayment, it is equally obvious that the risk on the loans is in no way diminished from a purely material point of view by the combination. It will not, we think, be found frequent in practice in India for men of substantial position to join a society to support the credit of their poorer neighbours, and consequently it may be taken that the majority of societies belong to the latter class. It is true that even in that case the total

assets of the members may, and generally do in practice, total up to a nominal saleable value, based on the rates obtained at occasional sales, considerably in excess of the total loans granted. It is, however, probable that in the event of the forced sale of a number or all of these assets, the amount realised would be found to be very much less than that at which they had been valued and might in many cases fail to cover the debts of the societies, the more especially if many such sales were taking place simultaneously within a small area. Hence it is clear that the creditors' real security consists not in the material assets of the members but in the ability and desire of the members to put the borrowed money to productive uses and to repay the loan out of the profits made thereby.

Each loan should mean so much earning capacity, so much producing power for the individual borrower. The guarantee consists in the expectation that each member of the society knowing that he stands to lose his all by the default of the others, will exert moral pressure on his co-members to ensure that they use for a proper productive purpose the money which they have borrowed and duly repay it at the appointed time. The security in fact lies in the use of each loan for genuine productive purposes, the honesty and thrift of the members, the watchfulness they exercise over each other, the moral influence which they bring to bear upon dishonest or unthrifty co-members and the feeling of solidarity which is usually awakened by association for a common purpose. These represent the essential elements of co-operation in its perfected form and it is in the presence of these elements that the business aspect of co-operation also finds its best security. The societies, as we have said in our report, must in the first place be *co-operative* and must further be *business like*. The two qualifications are *intimately* inter-dependent, but for the sake of clearness it will be convenient to deal with them separately as far as possible.

3. *Conditions necessary to make a society co-operative.*—The society to be fully *co-operative* must fulfil many conditions. The theory underlying co-operation is that weak individuals are enabled to improve their individual productive capacity and consequently their material and moral position, by combining among themselves and bringing into this combination a moral effort and a progressively developing realisation of moral obligation. The movement is essentially a moral one and it is individualistic rather than socialistic. It provides as a substitute for material assets honesty and a sense of moral obligation, and keeps in view the moral rather than the material sanction. Hence the first condition obviously is that every member should have a knowledge of the principles of

co-operation, if this co-operation is to be real and not a sham. In the formation of a society the first essential is the careful selection as members of honest men, or at any rate of men who have given satisfactory guarantees of their intention to lead an honest life in future. As regards the dealings of the society, it should lend to its members only, and the loans must in no circumstances be for speculative purposes, which, so far from encouraging thrift and honesty, have exactly the opposite effect. Loans should be given only for productive purposes or for necessities which, as essentials of daily life, can fairly be classed as productive. The borrowers should be required to satisfy their fellows that they are in a position to repay the loans from the income that they will derive from their increased productive capacity, or that by the exercise of thrift they can effect a margin of income over expenditure which will suffice to meet the instalments of their loans as they fall due. When a loan has been given, it is essential that the committee of the society and the other members should exercise a vigilant watch that the money is expended on the purpose for which the loan was granted. If it is improperly applied, it should be at once recalled. It is further advisable to add to the general supervision of the society the special supervision of individual members, by taking personal sureties in the case of each loan. In the event of any default by the borrower an instant demand should be made on these sureties. In the more general matters of society's business there should, of course, be a committee of management with a president and a secretary, all of whom, except those who perform purely clerical duties and have no voice in the management, should be members of the society and give their services to it gratuitously. At the same time the ultimate authority should never be delegated to the office-bearers, but should be retained in the hands of the members, who must continue to take a practical interest in the business of the society. With this object the constitution should be purely republican ; each member should have one vote and no more in the general meeting and all business should be transacted with the maximum of publicity within the society. For example there should be kept in some place open to the inspection of every member a list showing the loans issued to every member, the names of his sureties and the amount of the loan still unpaid, and each member should be required to know generally how this account stands : general meetings should be frequently held at which the accounts and affairs of the society are fully discussed and explained. The express object of the society should be the development of thrift among its members, with the hope too that this idea of

thrift will spread in the neighbourhood. To effect this object loans must be given only when they are really necessary and desirable. Further the development of thrift and of a proprietary interest in the society should be aided by efforts to build up as soon as possible a strong reserve fund from profits. The society must also be encouraged to obtain as much as possible of its capital from the savings which its teaching and example have brought about among its members and their neighbours. With all these must go the elementary business principles of honesty, punctuality, proper accounts, diligence and payment when due. To ensure all this there must be adequate control from within, increasing vigilance and supervision by the office-bearers and a continuous effort by members in learning the principles of co-operation, in meeting frequently, in watching others, in working hard and observing thrift, and in punctual repayment of their own loans as they fall due.

4. *Three special points.*—There are three matters in this connection which we consider to be of special importance :—(i) the starting of new societies and the size of societies, (ii) the period for which loans are granted to members, and (iii) the rate of interest charged on loans.

(i) *New Societies and their size.*—With reference to the starting of new societies we have recommended that the utmost care should be exercised in permitting the formation of a society and that the Registrar should only consent to register a society after he is convinced that its prospective members understand co-operative principles and duties and are prepared to act up to them and that there is a reasonable probability that they will do so. Any general spirit of official propaganda of primary societies would in our opinion now be a grave mistake. The movement has spread sufficiently to enable the villagers in most provinces to have an opportunity of seeing a society in being and to take steps to form a society of their own, should they consider that the inducements are sufficient. The members should be sufficiently acquainted with each other to know whom to trust and whom not to trust and to be able to exercise genuine supervision over each other's dealings. Consequently large societies are to be deprecated. Undoubtedly large societies do exist and prosper up to a point, but it will be found in practice that these depend for their existence on the efforts of the president or a small committee, and that the ordinary member takes little interest and has practically no voice in the management or affairs of his society. The co-operative safeguards are therefore absent, and everything depends upon the honesty and business qualities of the committee. We have noticed moreover that it is from societies of this nature that the majority of

complaints have come that members who are perfectly well able to repay are contumaciously refusing to do so. This is only to be expected when there is an absence of the co-operative elements of mutual watchfulness and supervision and of the exercise of moral pressure. It is impossible to avoid the conclusion that large societies of this nature must inevitably lose their co-operative character and degenerate into village money-lending concerns.

5. (ii) *Length of loans and their repayment.*—The fixation of the period of loans is a point which deserves special consideration. To take a common instance, a man, who has mortgaged his land and is working as a daily labourer, applies for a loan of (say) Rs. 400 to redeem that land and his fellow members come to the conclusion that, put in the possession of the land, he can by the exercise of due thrift save Rs. 150 a year. If a loan of Rs. 400 is granted on condition of repayment by two instalments within two years, the result must be to drive the borrower again into debt by forcing him to raise elsewhere the balance required to meet these instalments when they fall due. If instalments have been fixed to which there is admittedly no intention of adhering, the arrangements of the society for repaying its own borrowings must necessarily be stultified, while other borrowing members who may very well be in a position to pay, are encouraged to resort to procrastination and evasion. On the other hand a well-to-do man, though he might reasonably be granted a loan to replace plough cattle which had died, would probably be in a position to repay that loan sooner than another man whose income and necessary expenditure afforded a smaller margin. Conversely, by allowing three years for the repayment of a loan granted for seed grain, which should properly be repaid after the harvest, direct inducements to extravagance and unthriftiness are placed in the way of the borrower. It is, therefore, necessary that each society before granting its loans should consider carefully the time within which, having regard to the purpose of the loan and the circumstances of the borrower, actual repayment can be properly expected. When the period has been fixed, it should be rigorously enforced except in the event of harvest or other domestic calamities. The system of extending loans as a matter of routine is one of the greatest dangers that exist in the co-operative movement, in that it paves an easy way for procrastination and eventual default. It is moreover facilitated by the fact that, if a loan is formally extended by the society, even for the sole reason that the borrower refuses to pay, it does not appear in the returns as an overdue loan. It is consequently possible for the nominal assets to include loans which should really have been

written off long before as bad debts. It is difficult to devise any system of returns which would differentiate extensions, and the fact of improper extensions having been given can best be elicited by a careful inspection of the society. When the practice comes to light prompt action must be taken, but the real remedy lies in the prevention of the growth of the practice by the society's seeing that no loans are granted on conditions of repayment within a period, inside which no reasonable person could expect the borrower to repay. In this connection attention should be paid to the fact that agricultural finance must be based on the agricultural cycle, and this cycle, though usually of the duration of one year, may occasionally be a matter of months, but is frequently a matter of from two to five years. Where climatic conditions are such that in a one-crop area failure of the harvest is practically unknown, agricultural finance is of course based on repayments at harvest within the twelve months. Where however the climatic or other factors render harvest precarious, the agricultural class must be financed with regard to a period of years which will cover the average cycle comprising good, bad, and indifferent seasons. Thus in an area, where one good, one bad, and two indifferent years form the ordinary cycle of seasons, the agency financing the cultivator does so on the assumption that the loans will be repaid in full after the first good harvest, which may of course not occur until the fourth year. This has been from time immemorial the ordinary practice of the money-lender, and it seems advisable to enter this caveat, as there is a tendency to imagine that agricultural finance is always worked on a twelve months' basis.

6. (iii) *Rate of interest on loans.*—As regards the interest at which loans are granted to the members of societies it has sometimes been urged that in order to stimulate the movement and give its full benefits to members of society, the rates of interest should be made as low as possible. This point of view ignores the dangers of unthriftiness and extravagance incidental to too facile credit. It is sound policy for a society to start by lending to members at rates which are still substantial, though very much lower than those at which, with their precarious credit, they could borrow from the local money-lender. Such rates we have found in many places to be as much as 36, 48, or 60 per cent per annum, and in these places a society may very well begin by charging 15 or 18 per cent. We have, on the other hand, been told in some places that ample money can be borrowed there from the local money-lenders at 8 or 9 per cent per annum or even lower rates. We cannot however help thinking that money at this

rate is available only for those who have ample realisable material assets to offer as security, and not for those agriculturists whose emancipation from their present depressed condition is the object and justification of Government's expenditure on co-operation. In the charge of a high rate of interest on loans to them there is no hardship imposed on members, inasmuch as every penny of profit made on that rate is retained for their use and benefit in the shape of a reserve fund, which can be later employed to enable loans to be made at very much reduced rates, when a substantial reserve has been accumulated and the members have thoroughly learnt the use and value of money. The matter is one which we think should be under the very careful supervision of the Registrar who should have full powers as regards controlling the rates at which money is lent to members.

7. *Business aspect. Sources of Capital.*—Turning to the more purely business aspect position of primary societies, we may note that they rely for their funds partly on external and partly on internal sources. In the former may be included deposits from members and non-members and loans from central financing institutions ; in the latter the reserve fund and (in some Provinces) the share capital.

(i) *External Capital. Deposits.*—The amount of capital hitherto obtained in the way of deposits has on the whole been disappointing. As long as the deposits received are of a truly local character and are made from confidence in the working of the society, every effort should be made to secure them, both from members and from non-members. We look to a considerable increase in deposits as an essential to real progress in the future.

Loans to societies,—how determined. Use of Unions.—For the present, however, the main source of outside capital in primary societies consists not in deposits but in loans from central co-operative financing agencies, to which we shall allude further below. To such agencies applications by primary societies for loans are generally made, and such an agency on receiving a request for a loan has to consider its treatment. In some cases the request is received through the office of the Registrar who has already, after receiving the reports of his subordinates, satisfied himself as to whether the loan may safely be given and has endorsed his sanction for that amount on the application. In some cases the orders on the loan are passed by the central financing institution itself. In such cases it must arrive at a decision based upon the reports of the staff which it keeps for that purpose or on

the opinion of members of its directorate with local knowledge. In other cases, but not generally, a society before obtaining a loan has to be admitted to membership of a Union. Such a Union is a body of which the only members are the primary societies within a circle of a radius averaging generally about 8 miles and at the deliberations of which each member of the society has a number of votes proportionate to the number of its own members. The duties of the Union are to advise on the grant of loans to its constituent societies and to supervise the working of these societies. Being composed of societies all drawn from the same limited area who are or should be also shareholders in the central financing institution, a body of this kind may safely be presumed to have a fairly intimate knowledge of the affairs of its constituent societies and of their individual members, and is therefore in a position to give a most useful opinion as to the propriety of any loan asked for by a society, and is also in a position to supervise the use of the money borrowed and the general working of the society, while its member societies' interests in the central financing institution should ensure a due regard for the latter's welfare by the refusal to recommend any loan regarding which there was any doubt. It is moreover customary to introduce a further element of caution into a Union's recommendations and to give each member society a direct interest in keeping other societies up to the mark by making it liable to a certain limited extent to make good to the central financing institution any loss which such institution may have incurred from the default of a society to repay a loan recommended by the Union. In a province in which a Union system obtains, any application for a loan by a society must first be submitted to the Union which will bring to bear upon it a scrutiny, based upon personal knowledge and sharpened by financial responsibility, as to the necessity and productiveness of the loan, the character and position of the members of the society, if new, its past history and behaviour, if of some years' standing. If the result of this scrutiny is unsatisfactory, the loan is not recommended or a loan is recommended of a very much diminished amount. The central financing institution, provided it has funds available with due regard to the claim of other Unions, would in general rarely refuse to make a loan to the full extent recommended by a Union.

3 *Repayments of loans made to societies.*—The loan, when sanctioned, is issued to the society under conditions varying in different provinces as to repayment of principal and payment of interest. In most cases the interest has been paid regularly each year or half year, but the

practice differs widely as to repayment of principal. In some cases it is repayable by instalments spread over periods varying from one to ten years : in others it is repayable in one lump sum after a term of years. It would probably be safe to say that on an average most loans from central financing institutions to societies are repaid within three to four years, whether by yearly instalments or in one sum, and that the usual rate of interest charged to the primary society is 7 to 9 per cent per annum. It is usually left to the society after it has received the loan, to distribute it among its members in such proportions and on such terms as regards the period of repayment by them as it thinks fit ; and it is expected that the central financing institutions should recover repayments from the society corresponding to the repayments made to the society itself by the members.

We have heard it urged on several occasions that the real test of efficiency in a society is punctual repayment and that if a society is making repayment punctually it may safely be presumed to be in a satisfactory state. It is certainly true that a good society will always be punctual in its repayments, but the converse proposition cannot be admitted. To begin with, a society may be making repayments to the central financing institution from deposits entrusted to it from time to time and may be making no recoveries at all from its members. Or again its members may be misapplying or squandering their loans, while repaying punctually to the society with money temporarily provided by a friend or money-lender whom they recoup from the balance of a fresh loan, obtained from the society for some ostensibly productive object. As a consequence a society which is negligent in supervision over its members may be receiving regular repayments from them and repaying regularly to the central financing institution, while its members may be sinking further into debt to the extent of money which they have borrowed and wasted. This state of affairs can only be ascertained by a close examination of the society's books, coupled with a careful enquiry on the spot as to the affairs of each member and the manner in which he has utilised his loans. In the supervision of a society the greatest care should be taken to see that the repayments are genuine, and there is grave danger in placing undue reliance on the mere statement of a society's repayments to the central financing institution.

9. *Assessment of credit.*—It is part of the business of the Central Financing Institution to see that the credit of the society should be duly assessed, that is to say that the total external borrowings of a society

whether as deposits or as loans should be fixed annually at a certain sum. Without a systematic arrangement of this kind no proper relation can be maintained between the credit-worthiness of the societies and the liabilities they incur, and we consider the point of such importance that, for the present at least we regard it as essential that the Registrar should maintain a control over the total amount that a society may borrow from every source, and that a maximum limit should be fixed for such borrowings, to be varied from time to time as the society shows its growing strength or the reverse. When the limits for borrowing have then been fixed any deposits which would cause a society's borrowings to be in excess of that limit would have to be refused. Deposits within that maximum should only be taken on condition that the society itself retained sufficient liquid assets to meet the claims of depositors or, as is more suitable, made an arrangement for the necessary cover with a central financing institution. The maximum borrowing limit would, as above noted, include borrowings from a central financing institution as well as from outside depositors and members, while loans from one society direct to another should be precluded altogether. If a society's temporary requirements are substantially less than the borrowing limit assigned to it and happen to leave it with surplus funds, it should place these with the central financing institution.

10. *(ii) Owned capital. Shares and surplus assets*—The internal sources of capital in societies are, as above stated, the share capital and the reserve. The bulk of the societies, at present, have little or no share capital, and shares constitute a substantial part of the capital in four Provinces only. It is hard to expect poor peasants to subscribe anything large in the way of share capital, but when this can be obtained, as it usually is, in instalments, it forms an excellent means both of inculcating thrift and of providing a form of capital owned by the society. For the bulk of the 'owned' capital however, the society must look to its reserve fund, that is to the surplus assets which it accumulates from its annual profits. The amount of these surplus assets depends mainly on the difference between the rate at which the society borrows and that at which it lends, and until the amount has reached a substantial figure it is a mistake to reduce unnecessarily the rates at which money is lent to members. If arrangements are made, for maintaining a resource available for meeting deposits, the surplus assets of a society can most suitably be employed in the business of the society.

11. *Audit and supervision of societies.* It will be seen that in order to be fully co-operative and thoroughly business-like, a society must live up

to a high standard. Considering the class of people who compose the bulk of the agricultural societies it is useless to expect the maintenance of such a standard without frequent audit and unceasing supervision from without. It is difficult to exaggerate the importance of such audit and supervision. Without them a good society may soon degenerate and a bad society may soon come to ruin. The work of audit and supervision should in the first instance be vested in the higher co-operative institutions, Unions and Central Banks, but the ultimate responsibility for these duties must rest with the Government as represented by the Registrar. There is indeed no reason in our opinion why the whole of such supervision and audit should fall on the Government staff and be met at Government expense. A full audit by a Government staff of the accounts of each society is essential, but this might take place once in two or three years, the audit in the meanwhile being conducted either by the Unions, where these exist, or by the central financing institutions. Constant supervision is part of the duty of a Union, and where there is no Union it should be incumbent on the central financing institutions to carry out the duties of supervision and to maintain an efficient staff for the purpose. The cost of this can fairly be met by the societies either by a direct contribution or by the central financing institution's charging on loans to them a rate of interest which will cover the expenditure. At the same time we hold that the Registrar cannot abrogate his responsibility in the matter of directing and supervising this co-operative audit and supervision, and that he must see that the influence of central financing institutions is not misdirected or applied in wrong, improper or mischievous ways, and must maintain an efficient direction and control to ensure that the movement is kept on co-operative lines and is confined to these lines. The exercise of due care before formation and the ensuring of full and proper supervision after formation we consider indeed the most important part of the Registrar's duty. If the Primary Societies are sound and solvent the whole provincial edifice must be sound, unless there is instability in the higher finance. If the Primary Societies are unsound, if they are based on mere money-lending and not on co-operative principles, no matter how sound the higher finance may apparently be, its assets will be locked up in indifferent or bad securities and sooner or later serious trouble, if not failure, is bound to result.

12. The figures below show the rate of growth of primary societies of all kinds in the last eight years :—

YEAR.			No of societies.	No. of members	Working capital.
					Rs.
1906-07 ...	...	...	832	88,582	...
1907-08 ...	...	...	1,350	1,48,698	41,75,211
1908-09 ...	...	...	1,948	1,79,144	72,25,119
1909-10 ...	...	...	3,397	2,20,676	1,01,29,232
1910-11 ...	...	...	5,262	2,99,376	1,53,31,702
1911-12 ...	...	...	8,057	3,91,957	2,35,88,358
1912-13 ...	...	...	11,518	5,13,851	3,33,01,603
1913-14 ...	...	...	14,566	6,61,859	4,64,27,842

Need of increased control.—No one reading these figures can fail to be struck by the magnitude which the growth has already attained or to be convinced that the movement has taken firm root. Societies are now so spread over all parts of India and the advantages which their members are obtaining are so patent, that it is impossible to doubt that the movement will eventually attain dimensions compared to which its present size will appear negligible. As a consequence there will undoubtedly arise through the medium of co-operation a powerful organisation formed of these agricultural classes who are at present inarticulate through want of education and cohesion. The potentialities of such an organisation, its advantages and dangers, and the possibility of its perversion to wrong ends, if it is allowed to develop without adequate supervision and proper control must be apparent to all. Further there will be in use in these societies a very large sum of money, amounting to many millions of pounds, mainly the property of thrifty agriculturists, tradesmen and men of the professional classes on whom the loss of this money would inflict an irreparable blow coupled with far-reaching consequences. This money will be lent to individuals of whom many do not own the

material assets to provide the requisite security, and to sell up whom on any large scale would necessarily involve serious consequences. It must be obvious then that, if loans are not applied to productive or necessary objects and repaid promptly from the profits so earned, if there is not in each member the desire and intention so to use his loans and so to repay them and to see that each of his fellow members does likewise, there is a grave danger of the creation of a gigantic credit fabric which, having no real soundness within, may eventually collapse. On the other hand, with a sound co-operative system carefully restricted to its legitimate objects, there are innumerable potentialities for increase of wealth and prosperity to the country from a peasantry free from the crushing load of debt, obtaining on reasonable terms the money which it requires from time to time for its agricultural operations, and using for these operations improved and more scientific methods.

We do not wish to pose either as alarmists or Utopians, but we think that the importance of the movement, its potentialities for good or evil, should be recognised to the full. Of the first danger,—perversion of the co-operative movement to other objects,—we have as yet seen little or no signs, but we think that this possibility should always be borne in mind and carefully guarded against. The second danger, the lack of a true spirit of co-operation, is at the present moment much the more real. We regret to have to say that the conclusion has been forced upon us that in the majority of cases primary societies in India fall short of the co-operative ideal. Speaking generally, even allowing for the backwardness of the population, there has been found a lack of true co-operation. The necessity for developing a truly co-operative system rather than cheap money-lending and the danger involved in inviting deposits from the public for pseudo-co-operative institutions are matters that have been to a serious extent overlooked. Rapid extension has resulted in the growth of primary societies to an extent with which the Registrar and his staff were unable to cope, and faults have grown up which were inseparable from due lack of care in formation and inadequate means of supervision. At the same time these faults are by no means ineradicable, the societies are young and composed in the main of good material, and with proper care and supervision are capable of being placed on the right lines..

The remedy in both cases lies in the supervision and control of the primary societies by a registering staff adequate and efficient, specially in its higher branches. We do not mean by this that the Registrar should assume the detailed direction of societies. These must be left,

as hitherto, to manage their own affairs, but the Registrar must be in a position to know how they are managing these affairs, and to take action in case of need. In addition to being able to acquaint himself with the working of the societies under his charge, the Registrar must be able to give and supervise that teaching of co-operative principles without which proper co-operation cannot be expected to grow. For this work the present staff of Registrars is quite inadequate and we trust that a realisation of the importance of the subject will lead to a material increase in the superior registering staff. Our proposals on the subject are given in detail in the main report and are briefly that, in all the major provinces, there should be in addition to the Registrar at least one Joint Registrar holding a status equivalent to that of Collector, and that in provinces where the number of societies is large there should be approximately one superior controlling officer for each thousand societies. The effect of this would be to add three superior whole time officers to the registering staff of the Punjab, two to that of the United Provinces and the Central Provinces and one to each of the other provinces. It is essential that the officers should be picked men with special qualifications for the work, that their remuneration should be consonant with the arduous nature of their duties and that it should be recognised that the work of the Registrar is in the importance of its nature and the experience which it affords equivalent to the work of a Collector and renders an officer equally fitted for executive promotion.

It is also important that the district officer, while not allying himself with the movement in any official capacity and not exercising any of the formal powers of a Registrar, duties for which he might have no inclination and which the press of other work might force him to allow to fall into routine—should nevertheless realise the importance of co-operation and its possible effect for good or evil on the district under his charge, and should keep himself thoroughly in touch with the progress of the movement in his district.

13. *Central and Provincial Banks.*—As regards the higher financing institutions, it may be mentioned that in Burma, where conditions are somewhat exceptional and there is a fully organised Union system, the primary societies receive loans direct from one bank at Mandalay, except in two districts where owing to difficulties of communication local banks have been formed. These banks however are supported by the Mandalay Bank, which is also responsible for seeing to their affairs being kept in proper condition, and for co-ordinating and controlling the whole co-operative finance of the province. In all other Provinces except Madras

and Bombay a system exists under which the provision of funds to primary societies is done by a number of local central financing institutions the business of which covers an area sometimes conterminous with a district, sometimes with a subdivision and sometimes even smaller. Each of these institutions is an independent society registered under the Co-operative Societies Act with limited liability. In Bihar and the Central Provinces these institutions are formally federated under an apex bank, known as the Provincial Bank, which provides a certain amount of the capital of its constituent banks, balance their excesses and deficiencies and maintains a general control. In Madras and Bombay the large banks at headquarters, while confining their business mainly to lending to primary societies throughout the whole or part of the province, have of late tended to assume certain of the functions of apex banks by lending to and receiving surplus funds from some of the local central financing institutions. Their position however as regards the latter has not been defined, they exercise no control and do not occupy a recognised position as the apex of the provincial co-operative finance. In the remaining Provinces no apex organisation of any kind at present exists and the financial edifice consists of a number of independent local financing institutions without any co-ordination.

The local financing institutions throughout India, of which there are nearly 200, are in the various provinces designated by various names, but to avoid any inconvenience of nomenclature we have in this report applied the single term "Central Bank" to all local financing institutions concerned solely in the direct financing of primary societies, within an area sufficiently limited to allow them to exercise also the duties of supervision and control over these societies. Under this head will come all the central financing institutions except the five mentioned below. The term provincial Bank will be applied to the apex institutions in each Province which are formally constituted to co-ordinate and control the finances of Central Banks and deal only with such banks and not with primary societies. To this class belong the Provincial Banks of Bihar and the Central Provinces. This leaves in doubt the position of the Central Banks of Mandalay, Madras and Bombay. In Burma where the system, as explained above, is special, the Bank of Mandalay can appropriately be recognised as a Provincial Bank. The Banks of Madras and Bombay do business over too large an area to enable them to discharge the functions assigned to Central Banks, while they have not yet been placed in a position to enable them to take up the position of apex banks. It will be more convenient to deal with all classes of financing institutions

together, merely predicating that the remarks in paragraph 14 immediately below are not intended to apply to the five above-named banks.

The composition and method of investment of the capital of all these institutions was on the 1st January 1915 as follows, the figures being given in lakhs of rupees. 189.43 was held on deposit from individuals, of which 8.01 was on current account and 4.66 for short terms of less than three months. 103.70 was for periods between three months and one year, and the balance of 73.06 was for periods exceeding one year or on one year's notice. Debentures were 6.37, and loans from Government 3.73. Loans and deposits from other co-operative societies were 46.54, of which 2.28 were on savings bank account. Loans from presidency and joint stock banks amounted to 20.99. Share capital and reserve fund totalled 47.07. Against these liabilities 11.04 was held in actual cash and 10.16 in outside securities of which however a small portion had been pledged to the banks. The remainder of the assets was invested in loans to primary societies and other central institutions and of this one-third to one-fourth might normally be expected to be repaid each year. A small amount of this is however still owed by individuals who had the right of borrowing from some of these institutions. There are further available undrawn amounts of cash credits given by Presidency and Joint Stock banks amounting to 20.27. On the other hand the 20.32 already advanced by these banks has been given on terms which practically all admit of repayment being demanded within the year.

Of their profits these banks are by law compelled to put one quarter to their reserve fund, and the amount of dividend which they may pay to their shareholders is limited. Some banks keep current accounts both for their shareholders and for outsiders and a few still lend money to individual shareholders as well as to societies. It may be generally said, however, that the banks confine their business to receiving deposits from the public, generally for fixed periods, and to lending the money so obtained to primary societies and in a smaller degree to Central Banks.

14. *Central Banks—their powers and constitution.* As regards Central Banks proper doing business generally in an area not exceeding that of a district, we think that often they have been allowed too little discretion in the matter of making loans to societies and that full use has often not been made of this important link in the co-operative chain for the purposes of supervision and audit of societies. For the latter work the most suitable machinery is undoubtedly the Union system, but we fully realise the strength of the objection raised in many provinces that it may be some time before a sufficient spirit of autonomy is developed

among the members of societies to enable that system to be introduced. In the absence of such a system the entire supervision of the primary societies within its area must be undertaken by the Central Bank, subject to the advice, general supervision and control of the Registrar. This duty a Central Bank is in every way fitted to fulfil, provided its directorate has been suitably selected. It is also necessary that the Central Bank should be in a position to enforce its authority against errant societies by the refusal or curtailment of loans. We have found that in many cases it has been the custom for an application by a society for a loan to be adjudicated on by the Registrar or one of his staff, and for the work of the Central Bank to be limited to paying over the amount of the loan sanctioned, if it had in hand the money to do this. This procedure seems to be entirely wrong. The Money is the property of the Central Bank which is responsible for it to its depositors and shareholders, and as it has the responsibility in the matter, so it should have the discretion. We have already expressed the view that the Registrar should impose a limit beyond which a society should not borrow, but we think that within this limit the Central Bank should have full power to deal with all applications by societies for loans, and that with this should be coupled the duty of supervising the societies to which it makes these loans. It is however necessary that the constitution and directorate of the bank should be such as to enable it to discharge these functions to the best interests of co-operation. If a bank is frankly a profit-seeking capitalistic concern, its interests are in few respects coincident with the interests of societies which it is likely to regard mainly as a means of profit and in the real welfare of which it has little concern. A bank of this nature is further less susceptible to control. To banks where the management is provided entirely from the members of the constituent societies the main objection is that they are likely to fail to enlist the assistance of the commercial middle classes, who alone are at all capable of conducting a bank of any dimensions and on whose assistance and co-operation the financial support of other members of their class depends. If this difficulty could be got over, there can be no question that banks of this class are the most advantageous and economical, since there is no necessity for them to do more than pay working expenses. Moreover it is in the interests of co-operation that this link in the co-operative chain should be composed of societies themselves and not of outsiders. Consequently it is to be hoped that at some future date the agriculturists will have developed the indigenous ability to provide for Central Banks an efficient management which will command the con-

fidence of the depositing classes, and in some places there are already signs that, given the opportunity, men with the necessary qualifications will be forthcoming. This ideal must however require many years for realisation and we think that at present the best constitution is undoubtedly to be found in banks where the directorate is drawn partly from men of the commercial and professional middle classes and partly from the leading members of societies, each director representing his own class of shareholders and providing the elements in which the other class is lacking. Care should however be taken to see that the ultimate control of the bank rests with the society shareholders, since this prevents any possibility of exploitation of societies. It should also be made clear that the ideal aimed at is the eventual transition of the bank to a co-operative constitution where only the shareholders will be societies.

15. *Need for adequate Fluid Resource.*—Whatever be their constitution the same principles must apply to all higher financing institutions as regards sound finance. It has already been stated that these banks raise the major portion of their capital by inviting deposits from the public. A portion of these deposits are on current account or for short periods not exceeding three months; a portion is on fixed deposit for terms exceeding one year, but more than half, in fact 54·7 per cent, is for periods ranging from three months to one year. The money so obtained is lent out to societies, and it may be said that, taking an average all round, it may be expected that each individual loan will be repaid, under normal agricultural conditions, in instalments spread over three to four years. If pressure were put on societies an increased amount could be forthcoming, but only at the cost of dislocating the arrangements of these societies and probably requiring their members to have recourse to the money lender. Again a year of agricultural scarcity may render societies unable to make any repayments in that year and will probably make it necessary to accommodate them with loans in excess of their normal annual requirements, if their members are not to be required to go to the money-lender. It is thus obvious that, if the banks are to be in a position to repay deposits when due and demanded, they must equilibrate their finances with some care and provide an adequate amount of liquid resources. So far the actual necessity for doing this has not arisen in any marked degree owing to the very great increase in the last few years of the deposits made in these banks. The amounts deposited have been each year largely in excess of those of previous years, and any deposits withdrawn have been met out of new deposits. Moreover a custom has lately grown up of obtaining advances from commercial banks either in shape of

loans of definite amount or of cash credits. Some of the more prudent banks have utilised the cash credits so obtained only to a limited extent, leaving the balance available to be drawn upon to meet calls by depositors. Others have drawn and employed in loans to societies practically the whole of their credit. In some cases the apex co-operative bank of the Province has undertaken to support its central banks, but this support has generally been dependent on a cash credit it has itself obtained from a commercial bank. It may be said however that in practically all cases, with the exception of undrawn cash credits on commercial or apex banks, no central bank has retained or provided any liquid assets, beyond a small and quite inadequate supply of cash, to meet demands by its depositors or to provide for seasons of agricultural distress.

This has been due in some cases to a desire for dividends : in others to a readiness to take a present risk so as to secure eventual safety by a reserve fund built up out of larger profits : in others a too rapid growth of societies has imposed work on the Central Bank in excess of its financial capacities : in others it has been due to the fact that money is lent to societies at rates so near to those paid on deposits as to allow no margin for the provision of fluid resources : in others it has been frankly stated that in the event of difficulty over fluid resource they look to Government for assistance and their only duty is to see that their investments are sound and that there is no possibility of eventual loss. Whatever be the reason, there can be no question that the matter of adequate fluid resources has been generally neglected.

Those banks which have secured themselves by undrawn cash credits are distinctly in the minority, and at the same time the probability of the permanence of the arrangement must be open to serious doubt. The Joint Stock banks are not likely to increase materially the extent of the business which they are doing with co-operative banks, and it cannot be to their interest to keep always available for the use of co-operative banks large sums of money which they may be called upon to disburse very likely at a time when they themselves are most in need of them.

15. *Illustrations.*—As an illustration of our remarks on the subject of Central Banks we append the balance sheets, drawn up on 1st January 1915, of two banks which are not unrepresentative of many institutions of

this class. The figures in each case have been reduced so as to show each bank working on a one lakh basis.

Liabilities.		Assets.	
	Rs.		Rs.
Deposits—			
From Individuals { On current account	2,590	Cash in hand or bank ...	2,600
Due for payment in 1915	69,050	Loans to societies of which repayment is expected in 1915 ...	15,000
Due later	15,340	after 1915 ...	82,000
From other societies	4,650	Other items ...	400
	<u>91,630</u>		
Share capital paid up	5,300		
Reserve Fund	870		
Dividend equalisation fund	1,200		
Undistributed profits	1,000		
	<u>8,370</u>		
Total ...	1,00,000	Total ...	100,000
Deposits—			
From Individuals { On current account	4,670	Cash in hand or bank ...	4,160
Due in 1915	25,440	Loans to societies of which repayment is expected in 1915 ...	24,000
Due later	7,260	after 1915 ...	68,150
From other societies	23,000	Other items ...	3,690
Loans from Joint Stock banks	19,760		
	<u>80,130</u>		
Share capital paid up	16,000		
Reserve fund	2,500		
Dividend unpaid	650		
Other items	720		
	<u>19,870</u>		
Total ...	1,00,000	Total ...	1,00,000

It will be seen that in both cases the banks do current account business and that the amount of cash in hand is practically equivalent to what they owe on current account. In both cases the bulk of their deposits is on a one year's basis, while the terms of their loans to societies are considerably longer. In the one case the contingent liabilities of the current year are far in excess of the repayments they expect to receive. In the other they are nearly equivalent, but in neither case does any permanent provision exist to meet withdrawals of deposits unsupported by repayments from societies, which might very well fail to come in at the time when wanted or might have to be postponed altogether. The

second bank has a cash credit with a Joint Stock Bank to the amount of Rs. 25,000, but it has already drawn and lent out Rs. 19,760 of this, and will probably have to utilise or keep in reserve Rs. 1,160 more to pay dividends and hold against its current account. If the Joint Stock Bank is prepared in a time of stress to continue its support and does not on the other hand press for repayment of its loan of Rs. 19,760, the Central Bank will have some Rs. 4,000 available to meet fluctuations in its deposits in the current year. It will be noticed however that this bank holds a very large amount in deposit from other societies, of which a certain proportion is probably deposits passed on by other central banks which have no immediate use for them, and the bank should be prepared also for considerable calls on this account. The first bank is obviously purely capitalistic. It works on a very small share capital and considers the provision of dividend more important than the building up of a strong reserve.

On the other hand we append below the balance sheet of a third bank which seems to us to approach more nearly to a standard of safety.

Deposits—		Liabilities.		Assets.	
		Rs.	Rs.		Rs.
From Individuals	On current account	3,600		Cash and Government paper	11,600
	Due for repayment in 1915	21,000		Loans to societies of which repayment is expected in 1915	24,000
	After 1915	60,000		Later	64,000
	From societies	3,800		Other items	400
From Joint Stock Banks			89,000		
Share capital paid up		8,000			
Reserve Fund		2,000			
Suspense (mainly for Reserve Fund)		1,000	11,000		
			<u>1,00,000</u>	Total	<u>1,00,000</u>

In this case the deposits are well distributed and as a matter of fact nearly a half of the amount of Rs. 64,000 due after 1915 does not fall due until 1918, while the business of the bank is so arranged as to make the repayments by societies coincide with the terms of the deposits. The money taken from societies is small in amount, and is moreover the property of debtor societies and is not required by them to meet depositors. There is consequently, after providing for current account and repaying

the Joint Stock Bank, a balance of Rs. 7,400, to meet any withdrawals of deposits this year even if societies are unable to make any repayments.

The two first illustrations which we have given above will probably convey more clearly than any lengthy description the position of a large number of these banks. Put shortly, the conclusions at which we arrive as regards these banks generally are that their management is honest and, within its lights, efficient and that no fault is to be found with the keeping of accounts or the disposal of money. With the exception that some of them keep current accounts for outside constituents, their business is practically limited to lending to primary societies and, so long as these remain solvent and their members are able and willing to pay, their creditors need have no anxiety that they will not eventually get their money. At the same time there is certainly no assurance that, if even a not very considerable number of depositors wanted their money simultaneously, it would be forthcoming on the due date. At present a large proportion of the depositors have been the shareholders and directors and their relatives who, even when wanting their money, may often be persuaded to extend their deposits rather than embarrass the bank, but with the extension of the co-operative movement the proportion of this exceptional class of money must necessarily become less, in any case it does not seem right that institutions of this nature should invite the deposit of public money unless they are in a position to fulfil scrupulously and punctually their obligations to their creditors.

17. *Need for Provincial Bank.*—Obviously the first remedy for this state of affairs is the co-ordination of provincial co-operative finance in each province in a strong apex bank, or Provincial Bank, and to insist that Central Banks shall have all their financial dealings with other societies except their own affiliated primary societies, through that apex bank. This will put an end to the system, which is a very real source of danger, of Central Banks investing their temporary surplus assets with each other. The money may be lent out on terms which do not make it available when wanted and the interlocking of their finances may very well result in the fall of one bringing down unnecessarily a number of others in its train. The Provincial Bank might also be the sole medium in the province for dealing with Presidency and Joint Stock Banks. Co-ordination and control in finance is essential and this can only be done within a province by an apex bank possessing the necessary authority. A Provincial Bank can also arrange more economically for the provision of fluid resource, a subject of which we shall treat below. In Bihar and the Central Provinces Provincial Banks have

recently been constituted. In Burma the Provincial co-operative finance can very well remain with the Mandalay Central Bank. If the Madras and Bombay Central Banks are to be placed in the position of Provincial Banks, their constitution will require some modification and they will require to be in a position to enable them to carry out the duties of apex banks. In the other larger provinces Provincial Banks should be formed. When Provincial Banks have been duly constituted, the Central Banks in the province should be affiliated to them for the purposes of control and many of the smaller and weaker banks might with advantage be dissolved or amalgamated with other banks.

18. *Difficulties in maintaining standard of fluid resource.*—There remains however the main difficulty in the matter of these banks, that they take money for comparatively short periods and invest practically the whole of their capital in loans for comparatively long terms under conditions which render it probable that in any one year they may receive practically no re-payments and which may preclude them from calling up or realising these loans if they themselves are pressed. If their only assets are the pro-notes of societies, they are not likely to be able to raise much on these in the ordinary market to repay their depositors. It seems necessary that these banks should equilibrate their business : that they should lend out to societies for such periods as to enable them to count each year on repayments from societies somewhat exceeding the amount of deposits which fall due that year : and that they should in addition maintain a fluid resource in the shape of cash or easily realisable securities. As regards the amount of this fluid resource we have had considerable difficulty in making recommendations. Co-operative banking is new in India and is in many ways entirely different from Joint Stock Banking, and there are consequently few reliable data to go upon, but we think that each Central Bank might be required to hold an amount in liquid assets equivalent to the half of the total of all fixed deposits, which it might under the terms of such deposits be called on to repay within the next twelve months. In cases where current or savings bank accounts are kept, practically the whole of the amount of such accounts would in addition have to be covered. In the case of the Provincial Bank the same conditions would apply, but it might be required to hold liquid assets to cover it for a period of one-third of the next twelve months, since its money is invested over a much larger area than that of Central Banks and repayments are much less likely to be affected as a whole. Also, if the liquid resource of all the Central Banks is, as would ordinarily be the case, maintained by the Provincial Bank, it would appear to be possible to reduce

the fraction to one-third, as it is less likely that all banks in the province would require assistance simultaneously. We have taken the period of six months as being the probable duration of a co-operative crisis. At the same time we recognize that the adoption of the conditions we have proposed may be difficult. Deposits for periods as long as are required for agricultural loans many not be obtainable even on much dearer terms. We have proposed the imposition on Central Banks of the maintenance of a staff for assessment of credit supervision and audit, and the cost of this will have to come out of the bank's profit or be met eventually by an increase of the rates at which members of societies borrow. The further cost of the maintenance of a fluid resource will have to be similarly met. In provinces where the rates at which deposits are obtained and at which members of societies borrow allow of a large margin, no immediate difficulty need be anticipated, but there are some provinces where the margins are small already and there is also everywhere a tendency for margins to contract. Where the margin cannot be increased the only alternative is to continue in the present state of financial instability or to provide an agency which would discount the pro-notes of societies for co-operative banks in times of need, and obviate the necessity of their keeping liquid resources. It is more than doubtful whether this agency could be found in the Provincial Banks, as these institutions are unlikely to be able without a guarantee from Government to raise money at rates substantially lower than those at which Central Banks borrow. The problem has already been experienced in all European countries and has been solved, in nearly every case where co-operation has been successfully established, by the State's arranging for the discount of co-operative paper with the ordinary state bank or with a specially constituted co-operative state bank.

19. *Further suggestions.*—There are a few further points on which we may touch here. We have recommended that the staff of Registrars should be increased, and it seems advisable that the cognate subjects of agriculture and industry should be co-ordinated under one head in each province, and we have therefore also recommended the appointment for this purpose, as opportunity offers, of a Development Commissioner who would have the necessary time and practical knowledge to devote himself entirely to the supervision of these branches of administration and whose recommendations and advice would carry due weight with his Government.

Although the subject of co-operation is, like other branches of administration, one primarily for each local Government to deal with inside its

own area, it is a question whether the Imperial and inter-provincial interests involved have not now grown so important as to justify its being treated on the same lines as education and agriculture by the appointment of a co-operative Adviser with the Government of India. The advice and counsel of such an officer would be very valuable to Provincial Governments, Development Commissioners or similar officers, and to Registrars themselves.

Lastly we think it right to inform Government that we found during our tour that considerable misapprehension existed as to its responsibility for the stability of co-operative institutions. We have found in some places a belief held that the movement was guaranteed by Government, a belief which, if not actually fostered by the local supporters of the movement, was not actively contradicted by them. In other cases Joint Stock Banks, and even Central Banks, lending to societies on the recommendation of the Registrar, have considered that Government was thereby placed in a fiduciary position as regards such loans. We have on the other hand found cases where banks in advertising for deposits have expressly stated that, though they had the benefit of Government audit, they enjoyed no Government guarantee. We think that Government should impress on all its officers the necessity of allowing no misapprehension to exist as regards its relations with the co-operative movement and its degree of responsibility for co-operative institutions.

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